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# WHAT LOWER LABOR FORCE PARTICIPATION RATES TELL US ABOUT WORK OPPORTUNITIES AND INCENTIVES

## HEARING

BEFORE THE

## JOINT ECONOMIC COMMITTEE
## CONGRESS OF THE UNITED STATES

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

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# CONTENTS

### Opening Statements of Members



### Witnesses



### Submissions for the Record

# WHAT LOWER LABOR FORCE PARTICIPATION RATES TELL US ABOUT WORK OPPORTUNITIES AND INCENTIVES

**WEDNESDAY, JULY 15, 2015**

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
*Washington, DC.*

The Committee met, pursuant to call, at 2:30 p.m. in Room 562 of the Dirksen Senate Office Building, the Honorable Daniel Coats, Chairman, presiding.

**Representatives present:** Brady, Paulsen, Hanna, Schweikert, Grothman, Maloney, Delaney, Adams.

**Senators present:** Coats, Lee, Cassidy, Peters, Sasse.

**Staff present:** Barry Dexter, Cary Elliott, Connie Foster, Harry Gural, Colleen Healy, Karin Hope, Jason Kanter, Christina King, Kristine Michalson, Viraj Mirani, Thomas Nicholas, Robert O'Quinn, Brian Phillips, Aaron Smith, Phoebe Wong.

## OPENING STATEMENT OF HON. DANIEL COATS, CHAIRMAN, A U.S. SENATOR FROM INDIANA

**Chairman Coats**. I'll call this hearing to order. Here we are in a somewhat unique situation. The Senate will be beginning a long series of votes at about 3:15, which means that close to 3:30 we will have to adjourn and not be able to come back because these votes will last for about a two-hour period of time.

The House is in a very similar situation, different procedurally, but they only also have about an hour. So we are going to have to expedite the process here.

We have three very good witnesses that we want to hear from. Our members may be in short supply, which will give each of us more time to interact with our witnesses. My pastor says that the more efficient and less time he puts into the sermon, the more people want to come to church.

[Laughter.]

And the more they leave with, rather than a long sermon. So let me welcome our witnesses and thank them for being here today to discuss the decline in the labor force participation rate, the underlying reasons for it, and for what it means for American workers.

We have seen a steady decline in the labor force participation rate since the early 2000s. June's employment numbers reveal another drop in labor force participation to 62.6 percent, a record low for the post-recession period and the lowest we have seen since the late 1970s.

Today's hearing will explore the questions of why the proportion of Americans looking for work has fallen, what does this mean for our country and these Americans and their wellbeing, and how much of this is due to the economy, how much is due to demographics, social and cultural trends, and to policies that reduce the reward of working.

The discussion will center on the notable decline in workforce participation, including how the long-term and short-term trends factor into the issue; who is working less; where workforce trends are expected to go from here; and what that means for Americans' wellbeing and future growth.

The combination of longer- and shorter-term trends in the midst of an uncharacteristically slow recovery has made it difficult to determine the expectations for future economic growth and workforce participation.

And that is why we are spending time here today, asking these questions in hopes of shedding light on this topic. While many believe that America has entered a, quote, "new normal" characterized by lower economic growth and workforce participation, and subsequently require policies that lessen the negative consequences, is it too soon to claim that these trends are a permanent feature of the American economy?

Our witnesses, we hope, will shed some light on all of this. As we know, we are not growing at a rate in terms of our GDP growth that is allowing Americans more opportunities to participate in a dynamic, growing economy. And so I think the wisdom that can be brought to us by our witnesses today in the questioning that will take place is appropriate.

With that, I am going to turn to our witnesses.

Dr. Scott Winship is the Walter B. Wriston Fellow at the Manhattan Institute for Policy Research, previously a fellow at the Brookings Institution, a research manager of economic mobility projects of the Pew Charitable Trust, and a senior policy advisor at Third Way.

Dr. Winship, thank you for joining us.

Dr. Mathur is a Resident Scholar and Jacobs Associate in Economic Policy Studies at the American Enterprise Institute. She has been a consultant at the World Bank and an Adjunct Professor at Georgetown University School of Public Policy and Economics; a professor at the University of Maryland. Thank you, Doctor.

And finally, Dr. Jacobs, Elisabeth Jacobs, Senior Director for Policy and Academic Programs at the Washington Center for Equitable Growth. Before that, she was a Fellow in Governance Studies at the Brookings Institution. Dr. Jacobs has also previously served as Senior Policy Advisor here at the Joint Economic Committee—welcome back. And, as an Advisor to the Senate Committee on Health, Education, Labor, and Pensions.

I welcome all three of you. And, Dr. Winship, we will start with your remarks. If you can condense those to about five minutes, that will leave us more time for questions.

[The prepared statement of Chairman Coats appears in the Submissions for the Record on page 32.]

**STATEMENT OF DR. SCOTT WINSHIP, WALTER B. WRISTON FELLOW, MANHATTAN INSTITUTE FOR POLICY RESEARCH, NEW YORK, NY**

**Dr. Winship**. Thank you, Mr. Chairman.

Chairman Coats, Ranking Member Maloney, and Members of the Committee:

Thank you for the opportunity to testify before the Joint Economic Committee today. Policy cannot succeed but accidentally if we do not have a clear understanding of the problems that face us.

It is my belief that much of what we think we know about labor force participation and the state of the job market is incorrect, based on a mistaken read of the available data.

In my past research I have examined trends in the labor force participation of men between the ages of 25 and 54. A strong majority of men in this age range who are out of the labor force, roughly 70 percent on the eve of the Great Recession, tell government surveyors when asked outright that they do not want a job.

The increase in their numbers between 1979 and 2006 explains nearly the entire decline in their labor force participation over that period.

Furthermore, roughly half of men in this age range and out of the labor force cite a disability when asked the reason for not working or looking for work.

The increase in their ranks explains about one-third of the decline of labor force participation. Most data on health indicators offer little reason to think that disabilities are becoming more common. But receipt of federal disability benefits has increased significantly since the 1980s.

Federal disability benefits increasingly serve as a shadow long-term unemployment program for able-bodied men who struggle to find work.

Today I will focus my remarks on the labor force participation of black and white men and women under age 25.

Figure 1 displays trends for these groups over the past 52 years. A number of apparently worrisome features are evident.

The labor force participation of all four groups has been declining for 16 years or more, much more for men, and much, much more for black men in particular.

The participation rate of young black men has fallen fairly consistently since at least 1962, while the rate for non-Hispanic white men has "only" fallen for the past 33 years. Sizeable participation gaps between blacks and whites remain.

As I discuss in my written testimony, labor force participation can decline for good reasons, and increase for bad ones.

In particular, taking into account rising school enrollment among young adults goes some ways toward explaining the "problems" shown in Figure 1. African American enrollment rates have risen steadily over these 52 years, while white rates began rising in the mid-1980s.

All four groups are equally likely today to be out of the labor force but in school. The labor force participation rate for white men in the 1960s was artificially low due to the inflated school enrollment inspired by the Vietnam draft, and to a lesser extent benefits from the GI bill.

With the end of the draft, many fewer white men enrolled in school. As a result, their labor force participation rose, opening up a gap compared with black men among whom school enrollment continued to increase.

To illustrate the impact of taking school enrollment patterns into account, the next chart shows the percent of young adults in the labor force or in school. The number of young adults we might worry are idle shrinks considerably versus in Figure 1.

For instance, 43 percent of young black men were out of the labor force last year, but just 15 percent were out of the labor force and not in school. The declines in male labor force participation are much smaller after taking school enrollment into account, and the female declines disappear altogether.

The American jobs machine is not fundamentally broken. A war on robots is premature, and always will be. The remaining features of this chart to be explained also illustrate the importance of opportunity and work incentives.

The chart shows a dramatic increase in labor force participation among black women between 1993 and 1997, a period during which unprecedented state and federal welfare reforms were implemented.

Because the African American poverty rate and rate of single parenthood are significantly higher than the rates for whites, reforms to the safety net disproportionately affect them.

Once receipt of federal means-tested cash assistance is taken into account, the historic and recent labor force participation gaps between black and white women disappear entirely. The implication is that work promoting safety net reforms can successfully increase labor force participation and consequently as other research on the 1990s reforms has shown reduce poverty.

As for young men among those out of the labor force, the share indicating to federal surveyors that they want a job has declined since the early 1980s.

Taking that into account, the share of young men out of the labor force not in school and who would like to work has been low and stable since at least the mid-1970s.

Because the decline in wanting a job was larger among black men, the black/white labor force participation gap largely vanishes after we account for this factor. Whether or not it is a problem that a rising share of men do not want a job depends on the reasons for this increase.

Certainly the increasing number of men receiving federal disability benefits bears scrutiny and offers another way for policy to encourage opportunity-promoting initiatives.

Thank you.

[The prepared statement of Dr. Winship appears in the Submissions for the Record on page 44.]

**Chairman Coats**. Thank you.

Dr. Mathur.

## STATEMENT OF DR. APARNA MATHUR, RESIDENT SCHOLAR AND JACOBS ASSOCIATE, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

**Dr. Mathur**. Chairman Coats, Ranking Member Maloney, and Members of the Committee:

It is an honor to testify before the Committee on the important topic of labor force participation, work incentives, and opportunity.

The Great Recession has been severe on many measures, but particularly in its impact on the labor market. The most recent jobs report showed healthy job gains and an unemployment rate of 5.3 percent.

However, there are many worrying indicators. Today there are nearly 6.5 million persons employed part-time involuntarily because they could not find a full-time job.

Another 1.9 million individuals want a job but have not searched for work in the previous few months, perhaps because they are too discouraged to look. Over 2 million workers have been jobless for 27 weeks or more.

The labor force participation rate in the U.S. is at historic lows. In June 2015, nearly 6 years after the official end of the Great Recession, the labor force participation rate is at 62.6 percent, a rate not seen since 1978.

This is troubling particularly because participation is declining not just among retiring baby boomers but also among people at prime working ages and youth.

Some studies suggest that falling labor force participation rates among prime age males can be explained by a lack of demand for middle-skill workers, perhaps because these jobs are more susceptible to automation and to offshoring.

Data show that over the recession middle-skill jobs experienced a sharper and more long-lasting employment decline than high- or low-skill jobs. Moreover, middle-skill workers with low levels of education typically leave unemployment to exit the labor market rather than to find low-skill or high-skill jobs.

Job mobility also declined significantly during the Great Recession. Workers were unable to move from poor-quality jobs to good-quality jobs as easily during the Recession as they would have been able to do during normal times.

On average, job quality and job finding rates went down significantly over the Recession. Due to the slack in the labor market, average wage growth has been very weak, putting additional strain on low- to middle-income households.

How do we address these challenges?

First out, it is important to remember that outcomes are highly influenced by early investments in human capital and skill development.

For instance, as per a recent study, moving to better neighborhoods at young ages could improve college attendance rates and lifetime earnings. Experimenting with solutions that allow low-income families to move from high poverty to low poverty areas could help improve long-term economic mobility.

Differences in family structure also influence early investments in human capital. Families headed by single mothers are more likely to live in poverty than married parent households.

As a result, children in these families have access to far fewer opportunities and are disadvantaged when it comes to school readiness. To improve outcomes for these families, we should consider expanding the earned income tax credit.

This helps to encourage labor force participation for single mothers and boosts family incomes, which is helpful for children as well.

For youth graduating into a bad labor market with little prospects of finding a job and burdened with high levels of student debt, I propose expanding the system of paid apprenticeship programs that would be available to them before they graduate so that they can build up a set of skills that they would in fact need on the job.

Funds could be provided in incentives such as tax credits to make them participate in these programs which are clearly beneficial to both sides of the market. To improve labor force participation for women, we need to consider ways to provide paid maternity leave so that women retain the attachment to the work force even after giving birth to a child.

I have proposed using the existing system of child-related tax credits to fund maternity leave. This involves allowing for advance payments on the EITC, the Child Tax Credit, and the Dependent Care Credit, and making the Dependent Care Credit refundable.

Differences in state occupational licensing requirements can make it difficult for entrepreneurs and workers to find opportunities and jobs. The fraction of workers required to hold a government-issued license rose from less than 5 percent in the 1950s to 38 percent in 2008.

This in turn has led to higher training costs which has affected the mobility of workers across jobs. Mutual recognition of other states' licenses would improve worker mobility.

We can also reform the use of Unemployment Insurance funds, particularly the self-employment assistance program, to help startups by the unemployed.

A program in France that allowed unemployed individuals who started their own businesses to keep access to unemployment insurance for three years in case the business venture failed was a success.

There are some policies that should be beneficial to workers in principle but which research shows often have unintended negative effects on workers.

For instance, work by Casey Mulligan finds that subsidies provided to workers under the Affordable Care Act in households with incomes near 100 to 400 percent of poverty create work disincentives.

Recent increases in minimum wages and the proposal to change overtime rules can also hurt employment and hours worked for low-skilled workers.

According to a recent Pew Report, many American families are feeling financial strain and are still pessimistic about future earnings. In order to improve opportunity and mobility, we need to address the labor market challenges facing the U.S. economy today, perhaps through some combination of policies discussed in my longer testimony. Thank you.

[The prepared statement of Dr. Mathur appears in the Submissions for the Record on page 55.]

**Chairman Coats**. Dr. Mathur, thank you very much.

And now, Dr. Jacobs. Thank you, Dr. Jacobs.

## STATEMENT OF DR. ELISABETH JACOBS, SENIOR DIRECTOR FOR POLICY AND ACADEMIC PROGRAMS, WASHINGTON CENTER FOR EQUITABLE GROWTH, WASHINGTON, DC

**Dr. Jacobs**. Thank you. Thank you, Chairman Coats, Ranking Member Maloney, and the rest of the Committee for inviting me to testify today.

My name is Elisabeth Jacobs. I am Senior Director for Policy and Academic Programs at the Washington Center for Equitable Growth. The Center is focused on understanding what grows our economy, with an emphasis on whether and how high and rising levels of economic inequality impact growth.

It is an honor to be here today to discuss the health of the labor market. My testimony highlights the importance of looking not only at the short-term but also at long-run trends. Doing so is critical for diagnosing the problem and for identifying the most appropriate policy solutions.

There are five main conclusions from my testimony that I want to leave you with today.

First, the labor market is recovering.

Second, looking solely to the unemployment rate overstates that recovery.

Third, the decline in the labor force participation rate predates the Recession and is primarily the result of demographic factors.

Fourth, the share of the recent decrease in labor force participation that is not explained by demographics is mainly due to continued slack demand.

Fifth, policy can play an important role, drawing workers into the labor force and therefore boosting labor force participation. But it is important to pull the right policy levers.

The labor market is in the midst of the longest streak of private-sector job creation on record and has added 12.8 million private-sector jobs over the last 64 months.

Unemployment stands at 5.3 percent, the lowest rate in 7 years. Despite this considerable progress, however, the labor market remains troubled. Relying solely on the unemployment rate as a sign of labor market health masks underlying problems, many of which have persisted for decades. Five years into the recovery from the most severe recession in recent history, demand remains slack. The employment-to-population ratio has fallen significantly during the recovery and stood at 59.3 percent in June, but it remains 3.4 points below its pre-recession peak.

The difference between the trends in unemployment and employment is explained by the falling labor force participation rate. This decline predates the recession. The overall labor force participation rate has been declining since 2000, and stood at 62.6 percent in June.

The long-term trend is mainly the result of several structural changes, including the aging of the workforce. As older members of the baby boom generation retired, the labor force participation rate ticked down. We should expect this downward pressure to continue.

At the same time, a growing number of young workers temporarily left the labor force to pursue education. Retirement and increased educational attainment are generally positive reasons for a drop in labor force participation.

While participation was trending downward long before the Great Recession, the economic crisis accelerated that decline. Exactly how much of a decrease since December 2007 is due to these long-term structural changes and how much is due to the exceptionally deep Recession is still up for debate, but the accelerated fall in labor force participation is certainly due to some combination of these factors.

Policy can play an important role in boosting labor force participation by focusing on the correct levers. Persistent slack demand suggests that fiscal and monetary policies are important first steps. On the supply side, the failure to adapt policy to meet the demands of modern American families means that women's labor force participation has stalled.

In 1990, the United States was a global leader in women's labor force participation, ranking sixth out of 22 high-income countries. By 2010, we had fallen to 17th. Research suggests that nearly one-third of that decline is explained by the absence of family-friendly policies. Paid leave, flexible scheduling, affordable high-quality child care, and universal pre-K are all policies that could play a major role in jump-starting the engine of women's labor force participation.

A second policy option to improve participation is a criminal justice reform agenda that includes a reduction in the incarceration rate, and policies to curb discriminatory employment practices against those with criminal records.

Research shows that criminal backgrounds can be significant barriers to employment. Removing some of this stigma could have beneficial impacts for many who are currently discouraged from work. To conclude, long-run trends will continue to push the labor force participation rate downward, but smart policy can provide counter-pressure. As long as policy makers are aware of the demographic headwinds and pursue policy options that fit the problem, they can take steps to move our economy toward full employment. Thank you.

[The prepared statement of Dr. Jacobs appears in the Submissions for the Record on page 77.]

**Chairman Coats**. Well thank you, Doctor, and thank the witnesses for your testimony.

To my colleagues who have just joined us here, I announced early on the reason we started right at 2:30 is that both the House and the Senate has kind of a drop-dead time here of around 3:15 or 3:30. So we are trying to shoehorn in a very substantive range of issues into a small amount of time. So we are trying to abbreviate and move forward as quickly as possible.

I do want to recognize the Ranking Member, Congresswoman Maloney, and our Vice Chairman, Mr. Brady, for our hopefully truncated opening statements. And then we will try to move through the Members as quickly as we can.

I will shorten my question time down to one question, but if we could get to essential question or issue for each member hopefully we can give everybody an opportunity to raise a point or to raise a question for our witnesses to respond to.

So we will do the best that we can. We have a series of votes that is going to take up to two hours, and so there is no way we can get back on the Senate side, and I think the House has the same kind of dilemma.

So with that, let me recognize the Ranking Member for her opening statement.

## OPENING STATEMENT OF HON. CAROLYN B. MALONEY, RANKING MEMBER, A U.S. REPRESENTATIVE FROM NEW YORK

**Representative Maloney**. Okay, thank you very much, Chairman Coats, for calling the hearing. There seems to be a broad consensus these days that the economy is stronger than it has been in years. The evidence is undeniable that the labor market is on a much stronger footing.

As you can see in this chart, we have had a record 64 straight months of private-sector job growth with businesses creating 12.8 million jobs during this time, and under the leadership of President Obama the unemployment rate is 5.3 percent, close to current estimates of what economists call its "natural rate."

There has also been substantial improvement in the broadest measure of unemployment, the U–6 rate, which includes discouraged workers not in the labor force, as well as those working part time who would like full-time work.

And as you can see in this chart, the economy has come a long way. Just remember how far we have come. When President Obama took office, our economy was in a dire situation. We were shedding roughly 800,000 jobs a month. But bold action by the President helped put our Nation back on track.

And I would like to say that many Republicans are acting as if the declining rate of labor force participation is some kind of new phenomenon. I note that many of them opposed the measures that have helped reverse the economic free fall. They predicted dire consequences, but these predictions have been proven wrong.

Now they are left with the weak claim that good job numbers are not really good job numbers. And that brings us to today's hearing. While it is true that economists are concerned about the declining labor force participation rate, much of this decline is structural and it long predates the Obama Administration.

Some of my colleagues act like this is a new phenomenon. They gloss over the fact that the labor force participation rate fell over the course of George Bush's Administration, and they ignore that the labor force participation rate for men has been falling since the early 1950s, as you can see in this particular chart.

Economists have long anticipated the recent decline in the labor force participation rate, and they predict that it will continue over at least the next 10 years. This chart shows the rise and fall in the percentage of Americans in their prime working years. And I have just a brilliant statement but I am going to put the rest of it in the record in the interest of time.

So thank you.

[The prepared statement of Representative Maloney appears in the Submissions for the Record on page 33.]

**Chairman Coats**. Thank you, Congresswoman Maloney.

Congressman Brady.

## OPENING STATEMENT OF HON. KEVIN BRADY, VICE CHAIRMAN, A U.S. REPRESENTATIVE FROM TEXAS

**Vice Chairman Brady**. Well in the interest of time, I will submit my record as well. Just to make one 30-second point. You know, if 5.3 percent was a true indicator of the economy, we would not be holding this hearing.

The fact of the matter is, the number of adults in the workforce right now compared to the population has been stalled out about the same as it was nearly six, seven years ago. The labor participation rate, people coming back to the workforce, is growing if you are over 60, shrinking if you are under 60. Not a healthy sign.

This recovery is the most disappointing recovery in half a century. We are missing 5 million jobs, more than that, in the economy. We are missing GDP about the size of Canada that ought to be back in the U.S. GDP today. And so, no, we are not holding a parade for the economy because it has a long way to go.

We have been stuck in second gear for way too long. We think we can do better. And the purpose of this hearing, Mr. Chairman, I appreciate you holding it, is we think we can do much better for the people still looking for full-time work in America. So, thank you.

**Chairman Coats**. Thank you. I am going to ask just one question, too, and ask for hopefully a brief response from our three witnesses here, and then move down the line here in terms of participation of our members.

The question is this: Are we facing the remaining temporary effects of this painfully slow recovery?

You know, a study was done that is very, very accurate of the recoveries from recessions all the way back to World War II. We are half the rate of the recovery of every other recession that this country has had for the last 50 years.

And so that really raises the question that a lot of people have said, well, this is the new normal. I mean, technology changes, robotics, aging workforce and so forth, that's the reason for this. Others are saying, no, it is policy-induced. We have not put the policies in place to have dynamic growth within the economy and the GDP. And if we do not get that, we are going to continue to suffer through this.

And now we are into seven years of this. So regardless of how many people have come back to work, the precipitous loss of jobs following 2008–2009, the collapse here, and the continued slow recovery has put a lot of people out of work.

So just your thoughts on that and response to that. Is this something we are just going to have to accept going forward because of all the changes that have been mentioned? Or is it more policy driven and Congress, working together with the Administration, adapting new policies can put us back on a fast track?

Let's go down the line, Dr. Winship, starting with you, and then the three of you respond briefly to that.

**Dr. Winship**. Thank you, Mr. Chairman. I think that is an important question, and I do think the research is pretty clear that the last three recoveries we have had have been, I think jobless recovery is too strong a word, but certainly the pace of recovery has been a lot slower than it used to be.

I think the latest research that I find the most persuasive on this point actually points to decreased dynamism in the United States economy—fewer startups, less entrepreneurship—as being a real correlate of the worrisome trends in jobless recoveries.

So in that sense, I think there are things that policy could do and the policy has contributed in some sense to the slowdown. I worry in particular about tax and regulatory policy that has the effect of protecting incumbent firms and making it more difficult for competitors to enter into markets.

I think if we could remove some of those barriers, we could increase the number of startups and that that would actually have an impact on recoveries moving forward.

**Chairman Coats**. Thank you.

Dr. Mathur.

**Dr. Mathur**. Yes. I do think that this recession has been different from other recessions. We have seen a much more significant increase in the share of workers who have taken part-time jobs involuntarily because they have lost hope of finding a full-time job and they are making do as well as possible.

There has been a tremendous increase in the long-term unemployed and the prospects for them getting back into the labor market are, you know, dim, given the research that shows that employers are more reluctant to hire people who have been out of the workforce for that long.

I do think a lot of it can be—the fact that people are taking these part-time jobs I think suggests that people are waiting for the recovery to happen, and they haven't just given up. And this is not a long-term structural thing in the sense that they do wish that there were policies for growth that would get them those full-time jobs. So I haven't given up on those people. And I think if we had the right policies, as I talk about in my testimony, you know, some of the regulations that we're seeing now with the Affordable Care Act, the work disincentives that exist in there, the minimum wage rules that are being adopted across different states, the new overtime rule provisions, I think all of them are pushing us more towards an economy where maybe employers are more reluctant to hire workers full-time.

And so I think if we saw changes on those policies, and particularly with occupational licensing, if we saw changes in policies, I think we can see the economic growth and the labor market recovery that we would like to see.

**Chairman Coats**. Thank you.

And, Dr. Jacobs.

**Dr. Jacobs**. Thank you. I think this is a critically important question, and I will give you two parts to my answer.

On the one hand, we know that this recession is not like any other recession. The crisis was unlike any crisis that we have seen in the last 50 years.

Ben Bernanke called the financial crisis worse than the crisis that preceded the Great Depression. And so I think comparing the speed of this recovery to recoveries over the last half century is actually a little bit of an apples to oranges comparison.

That being said, I think it is unsurprising that we still do see evidence of slack demand. We do still see evidence that there is work left to be done.

The vast majority of the growth in this recovery has been in full-time jobs, just as a side point to Dr. Mathur's point, but we know there has been slow employment growth across industries, and we know that there are things that we could do to actually speed up the recovery if we wanted to.

For example, there are fiscal policies, including infrastructure spending, that we know would boost growth by about 1.5 percent. In the short term it would stimulate demand, and in turn over time you could really see that move the needle on labor force participation.

So that is the short-term answer in terms of what we see in this recovery.

At the same time, I think that it makes good sense to think about the longer term trends. Over the period that you framed in your question, over the last half century, we have seen economic inequality rise substantially. And that rise in inequality has been correlated to slower labor market recoveries than we would like to have seen. So I think we need to think about policy solutions that make sense in this context, and we need to also think about where the gains from growth are going in good times—largely to those at the very top. We need to really think critically about the policies that we could put in place that would do something about that.

**Chairman Coats**. Thank you.

Congresswoman Maloney.

**Representative Maloney**. Thank you so much. I would just like to point out that by virtually every measure of labor market health, the economy is better off now than when President Obama took office. We were shedding 800,000 jobs a month. We have had 64 months of job growth, with 12.8 million new jobs, private-sector jobs. And the unemployment rate is at 5.3 percent, down from the peak of 10 percent.

So I would like to ask Dr. Winship, you mentioned in the first paragraph of your written testimony, and I quote, "Our misinterpretation of the data more often than not, translates into an exaggeration of the economic challenges we face." End quote. And I agree with you.

And in order to make good economic policy decisions, we need to be sure we have good and accurate data, and we need to be sure we are interpreting this data correctly. And we are here to talk about labor force participation rates.

So first let's talk about demographics and the impact that it has on labor force participation. Approximately how much of the decline in the overall labor force participation rate over the past several years is due to demographics and the fact that the baby boomers are retiring, that they are leaving the workforce? What is the percentage that you believe is due to retirement and movement out of the workforce by the baby boomers?

**Dr. Winship**. Thank you, Chairwoman. I would hesitate to put a percentage on it, but I think it is——

**Representative Maloney**. So would you say "a lot" or "a little"?

**Dr. Winship**. I would say "a lot."

**Representative Maloney**. A lot.

**Dr. Winship**. And I think over the course of the recovery, and even before the recovery, I definitely have been on the record trying to convince more people that month after month when the new employment figures come out, and labor force participation is down, that we need to relax a little bit. And it is going to continue to decline just because the baby boomers are retiring.

**Representative Maloney**. And let's talk about a positive factor that is in our economy now, and that is education. So many young people are pursuing higher education, and that is a good thing. It is good for them. It is good for our economy. And it builds their skills and they are doing it more than previous generations.

And so how much of an effect do you think that that is having on the labor participation rate, would you say?

**Dr. Winship**. I think it is significant, especially for the 18- to 24-year-olds that I am talking about. You know, there is a concern that if the economy is bad then people decide to go back to school, or to stay in school because the jobs are not out there, I think there is some legitimacy to that. Except that these trends of greater school enrollment really go back a long way. They predate the recession by quite a lot.

**Representative Maloney**. And now I would like to read you a statement, if you could please evaluate this for us, and I quote, "I think we are facing enormous economic challenges in this country. The Obama economy has led to the lowest labor force participation since 1978." End quote.

And given the significant impact of demographics and choosing to continue education, as well as other longer-run factors that predate the Great Recession and the Obama Administration, do you think it is a misrepresentation of the data to say that the Obama economy led to the lowest labor force participation since 1978?

**Dr. Winship**. I think it was a contributor to the decline. I do not think it is fair to say that it was the most important factor, by any means. But a lot of the expansions of our safety net programs that occurred during the first two years of the President's first term I think now need to be wound back a little bit. Because I do think the evidence from welfare reform in the 1990s really does show that the work disincentive there can be a real problem.

**Representative Maloney**. Well, Dr. Jacobs, could you comment? Do you believe the previous statement I read in fact is a misrepresentation of the data?

**Dr. Jacobs**. I think to say there is a causal relationship between the Obama economy and the labor force participation rate is a serious overstretch.

We know that at least half of the decline over time has been due to demographic factors. We know another approximately sixth of it is due to cyclical effects that we could have expected from any economy. And then we have got a residual, the leftover bit, that could be explained by a lot of different things, including the fact that this recession was unlike any recession we have seen ever before.

So I think it would be a serious overstretch to claim that there was a causal relationship between the two. I would also note that many of the expansions to the safety net put in place in the first two years of the Administration in response to the crisis did little to alter existing work requirements.

**Representative Maloney**. So would you agree, Dr. Winship, that the "92 million Americans who aren't working" are either retired or, as she says, half of it was due to these other factors that we mentioned—retirement, and getting an education, and other factors?

**Dr. Winship**. It is as good a guess as any. I mean, I think they were important. I don't think that much of the expansion of the safety net was—involved work requirements, unfortunately. I disagree with that point.

**Representative Maloney**. Well my time has expired.

**Chairman Coats**. Congressman Brady.

**Representative Brady**. Thank you. And even in this Administration, you can't claim jobs, you created it, and then ignore those who can't find a job. They are related to the fiscal policies of this Administration. This was a serious recession, no question. Financial crises are difficult. Absolutely. No question.

It is certainly not the greatest recession, or anywhere close to the Great Depression. In fact, in modern times President Reagan's recession he had to deal with had a higher unemployment rate, 10.8 percent.

The question here today is how do we bounce back faster? This has been a terrifically disappointing recovery. Every month we add new jobs is a good month, by the way. But we know we can do better. And in fact the Reagan recovery was almost three times faster economic growth.

So the question is how do we get people back in the work force? So I agree with Dr. Winship. I think there is—some of the obstacles are the need to rebalance our regulatory process. We need a much better tax code, to be competitive. We need a sound dollar going forward. That's the foundation for growth. And we need more freedom to trade around the world. No question.

But, and to Dr. Mathur, to your testimony, you talk about two things. Could you expand on them? One is, government tends to stick with the stale old 20th Century responses in our assistance programs, while states are looking at more 21st Century smarter work incentives.

Can you talk a little about the difference between the poor work incentives that were expanded to a big degree in response in this recovery? I think Dr. Casey Mulligan who you cited in your testimony, and then you also mentioned the Wisconsin FastForward initiative as a way, as a modern way to actually tackle the labor participation issue.

Can you expand on sort of that dichotomy between the stale old ideas we have been implementing and the things states have been doing?

**Dr. Mathur**. Absolutely. Thank you for the question.

As I mentioned in my testimony, there is a lot of research out there by Dr. Casey Mulligan which cites the Affordable Care Act and also the extension of Unemployment Benefits, and other welfare programs which were definitely needed at the time, but which also create work disincentives.

So if we talk about the Affordable Care Act, the subsidies that were provided to people at 100 to 400 percent of poverty had—could create the incentive to avoid, to stop work, or to not take up full-time jobs. And the reason for that is that the size of the subsidy, or the value of the subsidy, was a lot higher if you took up a part-time job, if you worked fewer hours in a year, or if you spent fewer weeks working.

And at the same time, if you had a full-time job with health insurance you were not given the full value of the subsidy, whereas if you had a part-time job where you were not offered insurance, the value of the subsidy was a lot higher.

As economists, you know, we believe that these incentives matter at the margin. You know, we will see how this plays out in the future and whether this actually does result in a lot of people sort of choosing not to work, but these incentives absolutely do exist in the current system under the Affordable Care Act.

I also mentioned the minimum wage increases and why I think having sort of wage subsidy programs like the EITC is a better alternative to minimum wage increases. We agree that there is a large literature on whether minimum wages have disemployment effects, or they don't have employment effects. I don't think anybody is arguing that it would actually increase employment.

And to my mind, the risk-free strategy then is to expand the EITC. We know that the EITC is a hugely successful program at getting single mothers into the labor market. It is hugely successful at helping families with children, helping low- and middle-income families, without the negative employment effects that we see—that are possible with minimum wage hikes.

So I have always talked about if we want to help low- and middle-income people, even people on minimum wages, I think a better idea is to expand the EITC.

Now to your point about what is happening in the Wisconsin FastForward initiative program, there the funds through the—my idea is to create the right incentives for employers to hire people out of the pool of long-term unemployed, or hire people out of the pool of unemployed; provide tax credits to employers, which are used to provide job training, skills training to workers who would ordinarily not be hired by employers because they are looked upon as long-term unemployed. We don't know what their experience level is.

But through these programs, you can provide them jobs training. The employer shares some cost of that training, but in the long run the worker is matched to a job. And I think that is a far more effective strategy at getting these people back into the labor market than just, you know, doing it either through minimum wage increases or through welfare programs.

**Representative Brady**. Thank you, Doctor.

Mr. Chairman.

**Chairman Coats**. Senator Cassidy.

**Senator Cassidy**. Well let me start off by saying this.

Would you agree that it is not—the people who are having the hardest time are the fellow or gal who has a high school education, maybe a year or two more, but not a college education? Semi-skilled, if you will, a crafts person, blue collar? Everybody agrees with that?

(Nods in the affirmative.)

Now I have been struck, and we have a slide but I do not think we have time to put it up, about how the part-time and voluntary labor force has gone up.

And, Dr. Mathur, you quoted Dr. Mulligan's information that this quite likely could be due to the Affordable Care Act. I think there is good academic data from the Federal Reserve in San Francisco and elsewhere that if you tax full-time employment for the low-wage worker they tend to be made part-time. Fair statement?

I also notice that there are some states doing really well in creating those blue collar jobs, and those are typically the oil patch from North Dakota, Oklahoma, Texas, and Louisiana. Is that a fair statement?

And so that goes along with the idea that blue collar workers have traditionally been employed in mining, manufacturing, and construction. And an energy-based economy creates mining, obviously, which in turn manufacturing in terms of construction. Fair statement?

Now the structural changes that you speak of, are you speaking, as you mention structurally, of the increased regulation of our jobs market? Because you point out that there's academic literature that shows with increased regulation, you have fewer jobs.

Is it the fact that we are moving away from mining, manufacturing, and construction, turning our back, for example, on things like Keystone-XL, which would have created 40,000 construction jobs? Or otherwise doing our best to inhibit natural gas and oil production and coal production? Is that what you mean by a structural change? That we are just turning our back on those mining jobs that would otherwise create prosperity, as they are in North Dakota, Texas, and Louisiana, et cetera?

Dr. Winship.

**Dr. Winship**. Thank you, Senator.

So when I think about structural issues, I do tend to think about diminishing dynamism. And as I said, part of that is business dynamism, but I think a second part of it I did mention that does relate to your invoking the strong economies of the oil states is, we may have less dynamism as Americans, as well.

In the past, probably the most important way that people found opportunity was to move to it. So you have the Westward migration. You have the great migration of African Americans from the South, the migration of poor whites from Appalachia, to where the jobs are.

**Senator Cassidy**. May I interrupt, because we have limited time. Dr. Mathur points out, though, and maybe your assessment, I don't think yours Dr. Jacobs, that if you give long-term unemployment people have less incentive to move. I think you quoted that.

I have read similar articles like that from The New York Times. If you are doing relatively well, why would you move to North Dakota? Because you live in Ohio, and all your friends are in Ohio. Are you with me?

**Dr. Winship**. I think that is right, yes. And I think that we ought to make our unemployment insurance system—it is a great example. To the extent we can incentivize people to where the jobs are when that makes sense for them, that is the sort of safety net reform I think that would be helpful for expanding——

**Senator Cassidy**. And structural also includes, from what you just said, how we structure unemployment insurance and whether or not we are disincentivizing people from moving from where there are no jobs to where there might be jobs. Fair statement?

**Dr. Winship**. Absolutely.

**Senator Cassidy**. Now in terms of the mining, manufacturing, and construction, I always considered mining as an important part of that. And if we do not have the energy, inexpensive energy for energy-intensive enterprises, are we really going to return to the kind of manufacturing that created those strong blue collar jobs with good benefits? That may be beyond your expertise, but I ask that question for an opinion.

**Dr. Winship**. You know, I think we are probably never going to return to the kind of robust manufacturing-based economy that we had in the 1950s. That said, I think it is important that we do as much as we can to expand manufacturing in the United States.

I think that other jobs outside of manufacturing can and are good jobs in many cases. And so——

**Senator Cassidy**. Yes, but I do not see those blue collar workers' service-related jobs typically bring the same sort of wages with better benefits. You put somebody on an oil rig—I am from Louisiana—and with overtime he can make upwards of $100,000 a year. I mean, that is great. A fellow who has two years of training after high school sort of thing.

Now I will finish by saying I think there are examples—Texas, Louisiana, North Dakota—where blue collar workers are doing pretty well. Houma, Louisiana, had the lowest unemployment rate in the Nation, or second lowest, for several years running, creating those blue collar jobs.

On the other hand, if you regulate the economy or disincentivize otherwise, or discourage the use of our natural resources to create jobs, we are consigning them to a tougher life.

I thank you. I yield back.

**Chairman Coats**. Congressman Delaney.

**Representative Delaney**. Thank you, Mr. Chairman, for assembling a group of experts that really bring a tremendous amount of intelligence on this topic. So it has been a great conversation.

I was inspired by my friend from Texas who was quoting Ronald Reagan, and it made me think. President Reagan had a good quote, where he said there are no easy answers, but there may be simple solutions.

And, Dr. Jacobs, you said something earlier that I think really could be the simple solution to this very complex question, which is infrastructure. Because when you think about what we have and the facts that you have described, while it is interesting to look at prior recessions, it is intellectually interesting, it is informative to some extent, it is not really dispositive. And in fact, if you want to look back to prior events, we should look back at the industrial revolution and what happened there, and the disruptive effect that had on the workforce.

And there was a public policy response, which was to educate people so that they could be better equipped in the new world. And there is a little bit of that going on today. So we have demographics which are changed, and clearly affect the outcomes here. So to compare it to prior recessions, again, is not all that relevant.

We have this tremendous kind of steep trajectory of technological innovation, which I tend to think is a much bigger contributor to this problem than people give it credit for. It is also a contributor to a decline in the standard of living because it leads us really to creating two types of jobs: high-skilled, high-paid jobs which are growing quite rapidly; and low-skilled, low-paid jobs which are generally people who are serving the high-skilled, high-paid people, right? And there is this huge lack of middle-skill jobs.

And I am very optimistic and confident that the U.S. free market system will solve this problem over time. Because again if you go back to other periods of disruption like the industrial revolution, you had lots of disruption and you had these similar kinds of pressures. But ultimately there was the creative side of creative disruption that kicked in, and you got a lot of new jobs, and I think that will happen here.

But it seems to me we need a bridged demand program that will put demand in the labor market for middle-skill jobs, and solve a lot of these problems. And so the simple answer, going back to President Reagan's kind of framing, would be infrastructure. Right? It's good for the country. It's good for our citizens. It's good for businesses. It's been proven, if we dynamically scored it, to be a good investment, and it creates jobs.

So I am just interested, Dr. Jacobs, I think I know your view on it because you mentioned it and it inspired my question, so thank you for that because it gave me something to say. But Dr. Winship and Dr. Mathur, what do you think of that? How do you think a big national infrastructure program would affect the outcomes on some of these disturbing statistics?

**Dr. Mathur**. I mean I do think there is a potential for a big infrastructure program, or funding highways to——

**Representative Delaney**. Assuming we paid for it in a smart way, right?

**Dr. Mathur**. Yes.

**Representative Delaney**. Obviously you want to premise it with that.

**Dr. Mathur**. If it was efficiently done——

**Representative Delaney**. Like fixing the international tax system and generating revenues and building infrastructure, for example. But, I'm sorry.

**Dr. Mathur**. Yes, I think there is the potential. I also think there are other ways—if you mentioned that it is the lack of skills that, the middle-skill jobs that are being lost, I think there are also other ways to do it, which is skills training, or training our youth to get into the labor market through paid apprenticeship programs.

But I do think that the multiplier on sort of highway infrastructure spending is large, and there could be economic benefits in the long run.

**Representative Delaney**. Dr. Winship.

**Dr. Winship**. I'm not opposed philosophically to more infrastructure spending. I think in practice it probably would not be paid for, and so I think that would be a mistake to do that. I think the infrastructure problem has been a little overstated. There is a nice paper by Evan Soltas at Columbia University, I think, who makes a pretty strong case I think that our concerns about infrastructure have been a little bit overblown.

And I also think that framing—talking about infrastructure in the context of labor force participation also frames the problem as being primarily a demand side problem. And as my testimony probably makes clear, I am a little bit skeptical of the extent to which the problem is on the demand side versus some supply side issues we have.

**Representative Delaney**. Dr. Jacobs, I will give you an opportunity because I sense I know your answer but——

**Dr. Jacobs**. I think you are probably right. I mean, as I said earlier, according to analysis by the International Monetary Fund, increased infrastructure spending can boost short-term economic growth by 1.5 percent in the short run. This seems like something we could use. It would create jobs in the construction industry, which was one of the hardest hit by the Recession and, like many industries, has recovered more slowly than we might like.

So it seems kind of like a win/win. I feel like every day that there is a news story about a train derailing, or a highway that is far bumpier than I would like to see and feel safe on, so it is clearly a problem that is worth solving for other reasons as well. We know investing in infrastructure yields long-run rewards across a variety of outcomes.

**Representative Delaney**. Thank you.

**Chairman Coats**. Congressman Paulsen.

**Representative Paulsen**. Thank you, Mr. Chairman. I appreciate the testimony we have had here today, as well. I know some believe that it is okay to accept slower economic growth and a lower workforce participation rate, and accept this as sort of new normal, and it is okay for wages to be flat for such a long period of time, or it is okay for record numbers of people that are working part-time that would like to work full-time, and it's okay for millions unfortunately to be in this chronically unemployed category, but I want to ask this question.

The focus of the hearing here is the participation rate, what the work opportunities are, what the incentives are, and how do we improve the situation. It seems we are looking at two sides of the labor coin here.

On the employer side, you have got the fact that many businesses are unable to fill the positions that they have available, because they cannot find eligible candidates to fill the jobs and the requirements.

Then you have got the employee side of the equation where you have got involuntary part-time workers, six-and-a-half million, as you mentioned, Dr. Mathur, that cannot seem to find the additional hours that they want to work, either because they cannot find the job with more hours, or possibly because there are policies that have left their employer in a position with the undesirable option of cutting hours to avoid regulatory penalties.

So, Dr. Mathur, if I can ask you this: In your estimation, what can be done on the employer side to help find qualified applicants? And what kinds of programs, perhaps apprenticeships, can employers embrace to hire workers that might also then reduce the concern that workers may transfer to a different employer after they've invested so much time in getting the training/and getting the expertise?

**Dr. Mathur**. So I have talked a lot about for youth who are graduating, I think we do need paid apprenticeship programs. What we are seeing is that a lot of them are reaching the labor market with high levels of student debt but unable to find jobs, and therefore being sort of permanently scarred, or scarred for long periods of time because they do not have the incomes to pay off the debt and they are not getting the right jobs.

So I think we are seeing experiments around the country where I was reading yesterday about an apprenticeship school where, you know, if you're in high school, or if you decide not to go to college, you can go into these schools and basically get training. Or even in school go and work at an employer and be trained for exactly the job that you might be required to do after you graduate.

So I think those kinds of programs are extremely important currently, given that youth unemployment has doubled, the official unemployment rate. Those kinds of programs would really help our youth to get the jobs that they need.

On the other side of the pool of unemployed who are not finding jobs and the employers who are willing—who are not willing to hire them because they are afraid of what their skills are, or how much experience they have lost, I think experiments like we just mentioned, the Wisconsin FastForward initiative where employers are actually being provided tax credits to hire exactly out of this pool and provide these workers the training that is needed on the jobs, that they can perform these jobs more efficiently, be more productive, get the skills that they need, I think those programs around the country would be successful at solving the problem of unemployment and getting the employees the skills that they are looking for in these employees.

**Representative Paulsen**. You mentioned this apprenticeship school you saw recently. Was that in a certain state? Or is that something we could look at?

**Dr. Mathur**. I think it was in Virginia. I just read the news yesterday, I think, in Newport News, Virginia.

**Representative Paulsen**. Dr. Winship, do you have an opinion in terms of what can be done to remove regulatory barriers and better enable workers to contract more freely with their employers on the type of hours, pay, and benefits that they would like to receive?

**Dr. Winship**. Sure. You know, I think the best proposal that I have heard for regulatory reform would set up a commission that would essentially enumerate the worst regulations out there. And you could certainly enumerate the worst ones for job growth, or for wage growth.

And then the commission would present the whole menu, and there would be an up or down vote on whether to rescind them or not.

I do think occupational licensing is another, is another really important issue that Dr. Mathur mentioned. And this goes back to the dynamism question. There are a lot of people who are protected from competition which props up their wages. So if I am a florist in a state that has undue regulations on who can become a florist, that's great for me but it is not very good for all of the people who might be unemployed, might be long-term unemployed who would do a whole lot better if they could become florists.

So I think occupational licensing is really important. Figuring out what the federal hook is there I think is a tough question.

**Representative Paulsen**. Thank you, Mr. Chairman.

**Chairman Coats**. Senator Lee.

And, excuse me, I might just note that the Senate votes have already been called. There is enough time for Senator Lee to do his. The House has not been called yet. I just talked to Congresswoman Maloney. I am going to turn this over to her. That is where we are. Congressman Schweikert, I think you are next on the list, and Dr. Adams. Is that correct? Adams is first on the list, and then Congressman Schweikert.

And so as long as the House can stay, I am happy to put the gavel in the hands of our Ranking Member here but, Senator Lee, you are on.

**Senator Lee**. Thank you. Thanks to our panelists for coming here today. We appreciate your insights, as always.

Dr. Winship, let's start with you. As you are aware, policy decisions and policy changes affect decisions at the margin. The individuals who are on the edge of perhaps dropping out of the labor force are in many instances facing a difficult set of questions, questions involving whether or not to work one more day, or to spend one more day looking for work, based on a determination as to whether these kinds of efforts are worth it relative to retirement, considering ways possibly to justify an SSDI claim.

You have written before that, on the subject of SSDI, and the sometimes perverse incentives that workers on the margins may face when presented with an opportunity to make a claim on SSDI. With the SSDI Trust Fund set to run out of money next year, what if any policy reforms might you suggest that could improve workforce participation, particularly at the margins?

**Dr. Winship**. Thank you, Senator. I think it is a really important question. The reforms that I propose in the article that I have written for National Affairs on this range from, you know, you could create markets for private long-term unemployment insurance. I think SSDI has become really a long-term unemployment program for folks who, depending on economic circumstances, would be employable. They are not actually disabled in that sense.

I think we could do things like experiment with experience rating of payroll taxes for employers. That is to say, if a lot of your employers go on to receive SSDI, then your share of the payroll tax would actually be higher. Now if you do that, you have to allow employers to also be able to get involved in the determination of eligibility for their former employees. So it is sort of a big step.

You can toughen eligibility requirements for people who are applying. You can make it easier for people who are actually disabled and on SSDI to work while at the same time making it more difficult for people who are not disabled in the sense of not being able to work by having more reviews of eligibility.

So I think there is a range of things you could do. You could update the listing of occupations, which the Social Security Administration uses to determine whether there are jobs out there that people could do.

So I lay out a dozen or so different proposals in this piece I have written.

**Senator Lee**. Thank you.

Employers are facing a slew of new regulatory challenges from the NLRB's Joint Employer Rules, the Department of Labor's proposed rule, proposed overtime standards that came out at the end of the month last month. How do you think these rules will ultimately impact the job market in general for the burdens they add to the employers, taking into account that employers are half of the equation here?

**Dr. Winship**. Yes. I think just like the minimum wage debate that is happening right now, I think any time that you increase the costs that employers have to pay for their workers you face a real risk of helping some people who benefit from it. But at the same time, hurting a lot of people who do not get the benefits of dynamic job growth in the future.

I think we have to be really careful. And this is a case too where I think a lot of the statistics about stagnating wages have been overstated, and we actually treat the problem as in some ways different than what it actually is.

**Senator Lee**. Dr. Mathur, I saw you nodding. Do you have anything to add to that?

**Dr. Mathur**. On the overtime rules, we actually have good research looking at the impact of proposed overtime regulations, or changes in overtime regulations and the effect on worker hours and worker wages. And there are two good studies out there that I found that basically said that when you have overtime—when you are required to pay workers time-and-a-half for every hour that they work over 40 hours a week, the employer either cuts down the base wage, or if they are already at minimum wage they cut down their hours.

So even though we know that these rules are out there to help workers, I think that in the long run there could be potential negative unintended consequences for the workers that they are trying to help.

**Senator Lee**. For a minute there I thought you might be making a plug for the Working Families Liability Act, to which I would make a plug for but for the fact that I am out of time. So since I am out of time I am not going to make a plug for the Working Families Flexibility Act, which would help this all.

[Laughter.]

Thank you very much for your answers. Thank you, Mr. Chairman.

**Chairman Coats**. Dr. Adams, and now I am turning the gavel over to Congresswoman Maloney.

**Dr. Adams**. Thank you, Mr. Chair. Madam Ranking Member, thank you, as well. I thank you all for your testimony.

Dr. Winship, let me return to your statement about misinterpreting data more often than not could be an exaggeration of economic challenges.

Some have stated that the labor force participation rate is at its lowest level in nearly 40 years, and they use this narrow fact to imply that the Obama Administration is the cause of slipping labor force participation rates, but those same people often make no mention whatsoever of demographic trends like the retirement of baby boomers. I am a baby boomer. I retired just a year-and-a-half ago. Or of large numbers of young people who are going back to pursue a college education.

So do you think that this narrow presentation provided, without mention of those factors, exaggerates the economic challenges that we face?

**Dr. Winship**. I do. And I think, just to be clear, I think we do have to distinguish between the demographic and structural changes that in some ways are beyond what policy can affect. But I think that's not to say that there are not better or worse policies that can also affect labor force participation rates.

So I do not want to leave the Administration completely off the hook. I do think that some of the expansions in the safety net, I think the things, the regulations in the ACA and this overtime rule do affect labor force participation at the margin.

**Dr. Adams**. So would you say that Senator Lindsey Graham was exaggerating the economic challenges when he said the labor force participation rate is at an all-time low?

**Dr. Winship**. I am not familiar with the quote so I cannot really answer that.

**Dr. Adams**. Okay. Let me move on and ask you about the unemployment rate as it relates to African Americans. It stands at over 9 percent, about 9.5 percent, compared to 4.6 percent for Caucasians.

So, Dr. Winship and Dr. Jacobs, if you would respond, could you explain why the unemployment rate is so high for African American workers relative to other workers? And what policies might we consider to specifically help increase the African American participation in the labor market and lower the unemployment rate there?

**Dr. Jacobs**. You are exactly right that the unemployment rate amongst African Americans is higher, particularly for young African American men. And I will return to one of the points that I touched on earlier in terms of criminal justice reform.

The incarceration rate in the United States is the second highest in the world, second only to the Seychelles. Research suggests that incarceration rates and crime rates have been pretty much entirely unrelated since the 1990s. So there's plenty of room for reform without a spike in crime. And we know that the African American population is much more impacted by our criminal justice policies.

So there is good reason to believe that what is going on in the criminal justice system and what is going on in the labor market are interacting in a way that is really pretty harmful for African Americans, particularly young African American men.

We know that 9 in 10 employers say they conduct criminal background checks, which in turn impact the ability of those with a criminal record to get a job. No matter how severe the crime, no matter how old they are, no matter how old that crime may be and how far in their past history it might be.

So there is a lot of potential I think for reforming the way that we deal with incarceration in this country, and also in terms of thinking about how employers may be discriminating against those with a criminal record and how that might be holding back labor force participation and pushing up the unemployment rate amongst African Americans.

So that is just one area that I think could have a major impact on a particularly troubling issue.

**Dr. Adams**. Dr. Winship.

**Dr. Winship**. I think criminal justice reform is important, but I do think that it would be wrong to focus on that as the ultimate source of these different employment outcomes.

You know, the gaps between African Americans and whites open up very early by the time kids start kindergarten, for instance. There are vast test score gaps. So I look at the issue as chronic childhood poverty. And it is very clear from research by Patrick Sharkey that African Americans are much more likely to grow up in concentrated poverty. So I think we need to experiment with a number of interventions at the state and local level.

There's a program I will plug called "Ready For K" in San Francisco where they are giving parents text messages about how to read to their kid and help their kids develop intellectually. And I think the research by Raj Chetty about concentrated poverty and segregation really points towards trying to help more people move to opportunity, as I said before, and move out of poor neighborhoods to areas that are going to support their intellectual development more.

**Dr. Adams**. Thank you very much. I think I am just about out of time. You know, I look at North Carolina. We do not have adequate jobs and certainly jobs that do not pay us enough, and so I think we are going to have to think more about living wages as we talk about people taking on work, and if that work does not help them sustain their families. And there is an issue with that, too. But thank you. I yield back, Madam Chair.

**Representative Maloney** [presiding]. Thank you.

Congressman Schweikert.

**Representative Schweikert**. I never thought I would be saying this—thank you, Madam Chairwoman.

[Laughter.]

**Representative Maloney**. Wow.

**Representative Schweikert**. Dr. Mathur, give me the best pronunciation, because I have heard two. Math-thur?

**Dr. Mathur**. Ma-tur, yes.

**Representative Schweikert**. Mathur, okay. So there are a couple of variations here. You have written about barriers to entry and the change in the last couple of decades of the ability to have certain types of employment because of the regulatory state. And I have seen some other data that actually said that also for particularly minority populations it is an even greater effect on their ability to become a barber, to become some sort of licensed profession.

How much are you seeing that movement of barriers to entry? And I accept that may be more of a state and local, but also with the new economy? If I am going to become a Uber driver, or somehow participate in the new hyper efficient economy we are now seeing a movement of barriers to entry to stop that one thing that really does seem to be producing entrepreneur job growth.

**Dr. Mathur**. Right. I absolutely agree with you. So when you look at the data on occupational licensing, as I said, there has been a tremendous increase in the percentage of jobs that are now required—which require people to hold the job, and the costs have gone up, and the time investment has gone up in these jobs and that is clearly a barrier to entry, and that is affecting entrepreneurship and just regular job growth.

But you also look at—you see that we talked about how the economy finds ways to sort of overcome some of these barriers, and I think we are seeing that with the new sharing economy, with the new gig economy, and how people are just using the assets and skills that they have already to generate income for themselves. And I think the more we try to regulate that, I think these avenues are going to be closed to us.

**Representative Schweikert**. Doctor, if I wanted to actually get better educated on that subject, if anyone is actually doing some quality academic research on both the barriers to entry and also the effects on sort of the new economic growth, and also what I see happening at many of our state, local, and even some of the federal, of trying to protect incumbency——

**Dr. Mathur**. Right.

**Representative Schweikert** [continuing]. In businesses and tax systems, what would I go out and read?

**Dr. Mathur**. Alan Krueger actually has a study, Krueger and Kleiner have a study on Occupational Licensing that shows the changes over time and the regulations over time that are causing the barrier to entry. But Alan Krueger has also actually done a study with Uber driver partners showing the economic impacts and saying so many people are benefitting from being driver partners at Uber.

**Representative Schweikert**. And actually it's much, much bigger than just Uber. That's just the easiest one that's touched so many lives, and my understanding is there's a disproportionate pushback on those who are poor and minority and the regulatory state is actually starting to step into these.

Dr. Winship, you touched on it but I would like to—because I think actually you have written on this—in the last quarter century, the greatest demographic movement from poverty into middle class, that movement velocity that used to be the hallmark of American society, wasn't it after the 1996 Welfare Reform Act, and now that all those reforms are gone, we have lost that velocity?

Do I state it correctly? And how do I understand this better?

**Dr. Winship**. So I think that it is probably too early to be able to say that the welfare reforms of the 1990s did improve child opportunity, for instance, because the kids that experienced it——

**Representative Schweikert**. But we do see the datasets of those who were recipients and five years later that their IRS income has dramatically changed.

**Dr. Winship**. That's right.

**Representative Schweikert**. So I was using IRS data.

**Dr. Winship**. So for single parents as a whole, for children as a whole if you look at child poverty, if you look at the poverty rate for female head of families, all improved a lot after welfare reform was passed. Employment increased a lot after welfare reform was passed.

Then you had a recession in the early 2000s. You had the Great Recession obviously. But poverty stayed down. Most people are not aware that if you include a measure of poverty that counts as income, things like food stamps, and the Earned Income Tax Credit, and things like that, poverty increased less in the recession of the early 2000s, and even in the Great Recession, than it did in the recessions of the early 1990s and the early 1980s. And that was because the safety net did step in. So I think it is a system of making it harder to not work and remain poor, but easier to work and escape poverty through things like the Earned Income Tax Credit.

**Representative Schweikert**. So sort of the cyclical balance that we seem to have lost.

**Dr. Winship**. Right. So the fear is that as you reform welfare, then you are going to help people in good times, but in bad times it was going to be really bad. And it looks like that did not actually happen.

**Representative Schweikert**. I yield back, Madam Chairwoman.

**Representative Maloney**. Congressman Hanna from the Great State of New York.

**Representative Hanna**. Ms. Jacobs, you talked about levers people can pull, the government can pull, to improve people's circumstances. Ms. Mathur pretty much talked about levers that the government has pulled that can cause people to be more or less a part. You talk about inequality.

It is interesting to me that the dynamics of helping people and wanting to do right by people can actually cause in some ways a permanent situation of inequality by giving them certain disincentives, and we all talked about them.

I want to shift. Universal pre-K. You have all mentioned that to some degree or another. I think it is critical that we support that as a government, writ large. But—I think it is pretty clear that the labor participation rate is trending downward, and we have talked about the causes. But would anybody like to just venture into it? You, Ms. Mathur, have done a pretty good job of telling us why certain things have disincentivized people to participate. And I think that causes inequality that is unintentional. But universal pre-K.

And you talked about prisons and incarceration rates. There is a Strong Start for Children Act that Arnie Duncan's got out there that I frankly like very much. Would anybody like to talk about that subject matter? I know it's a little bit off, but I think it directly relates to breaking the back of intergenerational poverty, particularly with minorities.

**Dr. Jacobs**. I love talking about universal pre-K. As a resident of the District of Columbia and someone who benefits directly from the fact that D.C. has near-universal pre-K, I've seen it for my own family. But more importantly, there is great research suggesting that even directly on the topic of labor force participation, which is not necessarily what we automatically think about when we talk about——

**Representative Hanna**. But it does, doesn't it? It really does.

**Dr. Jacobs**. It does. It does. It definitely does. I mean, we know that for every 10 percent reduction in the cost of child care, the employment rate of women increases by about a half percent, according to a range of studies. Which a half a percent does not sound like a huge number, but it actually is a really big move of the needle on something like labor force participation.

There are a host of studies on the long-term impacts of universal pre-K and high-quality early education for kids. I think there are reasons to think that it will improve long-term labor force participation and the quality of our workforce for kids, but there are also reasons to think that it would have a real bang for our buck——

**Representative Hanna**. All of this happens on the margin. That is the one thing we have all established, that so much of all of this is, integral changes in how we, in the decision process people go through and how they support themselves and their family and their decisions.

And there is an old thing you may remember from the 1950s of the negative income tax. One of the problems with welfare is that it essentially taxes you, in some cases 100 percent of your income, so your marginal willingness to shift is—it is not an unthoughtful thing to do. It is in many ways reasonable but unfortunate.

Mr. Winship, what would you like to say about that, if anything?

**Dr. Winship**. Sure. Well I guess I would say a couple of things. The first I think is that we ought to distinguish between something like universal pre-K for its childcare benefits versus for its benefits on kids. And I think on the latter the evidence is not especially strong that we are able to scale up programs in ways that actually will improve kids' outcomes in the long run.

The second thing I will say is that the universal aspect of it I think is an inefficient way to go about this. You end up subsidizing a lot of——

**Representative Hanna**. Well actually the bill is 200 percent and below. We could argue about the margin, but——

**Dr. Winship**. Sure. Well I think that makes a lot more——

**Representative Hanna**. That is what it is. Thank you very much. Do you generally agree, though, Ms. Mathur, that we have created a society out of our good nature and willingness to help one another that unintentionally not just disincentivizes work but actually incentivizes and causes inequality, the one thing we are trying to avoid, or one of the things we are trying to avoid?

**Dr. Mathur**. Yes. Some of the policies that we have good data on of what the likely effects are likely to be, I think we try to help but I think we——

**Representative Hanna**. Forty to thirty hours guarantee——

**Dr. Mathur**. Yes.

**Representative Hanna**. Would that be one of the things?

**Dr. Mathur**. It is absolutely one of those things where you could see a greater shift towards part-time.

**Representative Hanna**. And you can see that, and there are numbers to support that?

**Dr. Mathur**. Yes. There is some anecdotal evidence right now to support that.

**Representative Hanna**. Thank you very much. My time has expired.

**Representative Maloney**. Thank you so much. And we have been called to vote, so I am going to call on Congressman Grothman and have him assume the leadership of the committee so I can run over there and make sure I don't lose a vote.

**Representative Grothman**. Good. And you tell them not to close that rule.

**Representative Maloney**. I will try to keep it open for you.

**Representative Grothman**. Okay. I would like to thank you for being here today. I can't help but notice in my District, and my District has more manufacturing jobs than any other district in the country, one of the major problems my employers are having is they cannot find people to work. And beyond manufacturing, but retail outlets, everybody, you know, is looking for more jobs—more employees. Truck driver, a job that I don't think I could do, it's a tough job, but a lot of people could do it, but, man, they can't find anybody to drive a truck today.

But I thought I would use my little time here to clean up some misconceptions that some have put forth.

First of all, as a follow up from Congressman Hanna, at least from what I have read, when you look at a program like Head Start, you know, would you, just because you are the doctors in the room, would either of you like to tee that one up and give a shot as to whether everybody agrees that pre-K, if we say Head Start as pre-K, is successful? Do you think it is a successful thing?

Dr. Mathur.

**Dr. Mathur**. I think from my review of the literature there is a mixed—you know, there's a mixed set of results. Some people find that, you know, it is beneficial; some people find that it is not.

**Representative Grothman**. I guess the American Enterprise Institute is a little bit to the left of the Brookings Institution.

[Laughter.]

Dr. Winship, do you want to tell us what the Brookings Institution says about that, Head Start?

**Dr. Winship**. I think the Brookings Institution basically has I think Dr. Mathur's line on it, I think, which is it's a mixed bag but I think there's reason to be skeptical. I think Rus Whitehurst I think has a lot of really important points about the case that Head Start ought to be expanded, where he has talked about the different randomized experiments that have happened, and how disappointing some of those have been.

So I do think expanding Head Start is putting a little bit of faith where the evidence really is not there to support it.

**Representative Grothman**. Right. Now I want to do a follow up on you, Dr. Mathur. Earlier you said positive things about the Earned Income Tax Credit. When I talk to my employers, their employees are fairly sophisticated and they know that the amount you get in the Earned Income Tax Credit maybe peaks out between that $10- to $15,000 range, and they find some of their employees don't want to work the extra hours because of the Earned Income Tax Credit. In other words, it encourages you to take a part-time job. It discourages you from working full-time.

Given that, do you think one of the reasons for income inequality here, one of the reasons for people working part-time, is the Earned Income Tax Credit the way it is currently structured that it discourages people from say getting, you know, $20, $25, $30,000 a year?

**Dr. Mathur**. No. Absolutely not. I think all of the evidence that we have suggests that the EITC is actually encouraging labor force participation and has actually gotten people into the labor market.

Now you can argue that the structure of the EITC is such that at some point in the phase-out region of the EITC there might be a disincentive effect, but there is actually no good research that finds that disincentive effect to actually show up in the data.

So we know that it is structured in a way where you start losing, or the value of the benefit goes down after a certain point, but we do not really see that on the——

**Representative Grothman**. You mean when I talk to my employers and they tell me that their employees are very sophisticated and know that they should not make more money because they are losing the EITC, together with their food stamps and everything else, you think those employers are an aberration and that they are not typical?

**Dr. Mathur**. I am not sure of what your sample is.

**Representative Grothman**. Okay. I have one more question here and then I have got to go and vote.

Dr. Winship, you talked about poverty and its effect. And I always think there is—they are related, but poverty and marital structure both have an impact on children. It seems to me in the not-too-distant past in this country we had families of, you know, seven, eight, nine kids in households of, you know, two or three bedrooms, and they all did very well because those parents provided a very good example. And right now we sometimes have families in very, you know, sizeable low-income apartments but the family structure is not there.

Could you distinguish between poverty and family structure in the differences we see that were mentioned by Ms. Maloney a second ago? I mean, what do you think is more important? Poverty, or family structure? Because they are related, but they are kind of different.

**Dr. Winship**. Sure. They are related, but I think they are different. So it is very clearly the case that poverty rates of single-parent families are much, much higher than for two-parent families. And I think we do need to do a lot better at encouraging more people to delay child bearing until they have planned for it, until it is intentional. More often than not, the ones that are not involved in single parenthood, I'm a half-time single parent myself so this is not to badmouth single parents, but when the rates of out-of-wedlock childbearing have reached as high as they have in the United States, I think it will be hard to do much at all about the poverty rate without doing much about single parenthood.

**Representative Grothman**. Okay. Dr. Mathur, do you—I know you have written on that topic. Would you care to distinguish at all between poverty rates and family structure?

**Dr. Mathur**. I agree with you that they are highly correlated and, as Dr. Winship said, we do see much higher rates of poverty among single mothers. We see much higher child poverty rates in families headed by single mothers as compared to families headed by married parents.

So I think to address the problem of poverty we do need to talk about family structure.

**Representative Grothman**. Okay, now I've got to take off. The record will be open for five business days for any member that would like to submit questions for the record. So be ready for those questions.

This hearing is adjourned.

(Whereupon, at 3:53 p.m., Wednesday, July 15, 2015, the hearing was adjourned.)

# SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF HON. DAN COATS, CHAIRMAN, JOINT ECONOMIC COMMITTEE

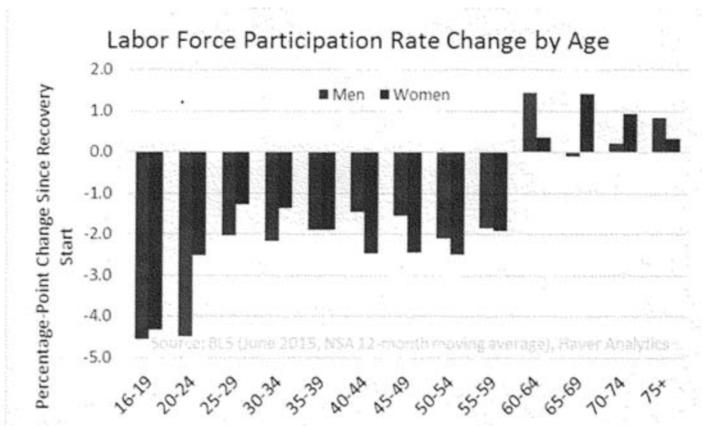
The committee will come to order.

I would like to welcome our witnesses and thank them for being here today to discuss the decline in the labor force participation rate, the underlying reasons for it, and what it means for Americans' well-being, job opportunities and the reward of work.

We have witnessed the steady decline of the overall labor force participation rate since the early 2000s, and June's employment numbers revealed a 0.3 percentage point drop in labor force participation over the month to 62.6 percent. That's certainly a record low for this post-recession period, and it is the lowest we have seen since the late 1970s.

I'd like to take a moment and point out that we have known for quite some time that Baby Boomers would lead to a reduction in the labor force participation rate. It's something that the Bureau of Labor Statistics, Congressional Budget Office and the Social Security Administration have been predicting for years. That's not really the concern here—in fact, Baby Boomers are retiring at a slower rate than previous generations. Americans age 60 and older are the only age group that has actually seen their labor force participation rate rise over the course of this recovery.

And we've also known about the trend among younger Americans, age 16 to 24, bypassing the labor force to focus solely on their education and stay in school longer. That's something that's happening in developed countries across the globe.




What I think has been really concerning us here is the effects that the recession had on the labor force participation rate trends, especially for people in their prime working years, and I think Americans will continue to feel those effects for some time. CBO estimated in its January 2015 Budget and Economic Outlook that if the unemployment rate returned to its December 2007 level and the labor force participation rate equaled its potential, there would have been 2.75 million more workers in the fourth quarter of 2014.

While many believe that America has entered a "new normal" characterized by lower economic growth and workforce participation, and subsequently require policies that lessen the negative consequences, it is perhaps too soon to claim that these trends are a permanent feature of the American economy.

We're still facing an economy in which many people would like to work more hours, spells of unemployment have lengthened over time, and wage growth remains tepid. Job openings, which have been at record highs for the past two months, are staying open longer as businesses take more time to deliberate on potential employees, and many are finding themselves unable to get the right candidates for the jobs on hand.

From manufacturers to grocery stores, I've heard from many Hoosier businesses that they have been unable to find workers to fill job openings—good-paying jobs with health insurance.

I believe it is not just that Americans are having trouble finding work, but that there is a non-working component here as well. The number of people in their prime working years that say they do not want a job has swelled over time. And I think that would be just fine if they were financially secure enough to not need a regular paycheck, but I'm not so sure that that's true of all cases.

We all know here that work is a sacrifice, and for many Americans it takes a lot of hard work to make ends meet. Yet many of the programs intended to help people get back on their feet have inadvertently, by way of their design, reduced the reward to working—making work more costly as Americans strive for betterment for themselves and their families.

As economist Casey Mulligan testified in our previous hearing on the employment effects of the Affordable Care Act, "When social programs pay more to people not working, the sacrifices that jobs require do not disappear. The commuting hassle is still there, the possibility for injury on the job is still there, and jobs still take time away from family, schooling, hobbies, and sleep. But the reward to working declines, because some of the money earned on the job is now available even when not working."

Raising taxes, increasing regulatory compliance, and other policy barriers also prove unsurprisingly effective at reducing the reward of work. CBO's Budget and Economic Outlook noted that increasing marginal personal tax rates, particularly on labor income, would "reduce people's incentive to work." And as we know, CBO also noted that the new taxes and other incentives in the Affordable Care Act would reduce hours worked, equal to as many as two and a half million full-time-equivalent workers.

In a similar way, providing increasingly more subsidies that don't require workforce attachment to an increasingly broader share of eligible individuals encourages non-work. In some cases, the penalty of losing benefits upon employment are so great, that combined with the taxes expected to be paid on earnings in addition to transportation, child care, and other costs, they exceed more than 100 percent as an implicit marginal tax rate on work.

In 1996, my colleagues and I worked with President Clinton to reform welfare, which included the requirement that able-bodied adults register for work and accept a job or go to a training program in order to qualify for food stamps, as they were known at the time. The 2009 stimulus law has since modified the work requirement and eased eligibility rules, thereby expanding the number of new recipients. I believe that work requirement should be reinstated to this temporary lifeline.

For Americans still in their prime-earning years, periods out of the labor force, underemployed, and jobless can have far-reaching implications for their well-being, including lower income, lower lifetime earnings, and less time to accumulate assets and financial security. It is important to ensure that government policies do not continue to foster economic malaise and do not discourage Americans from working and improving their earnings.

Economist and former Council of Economic Advisers Chairman Glenn Hubbard cites a number of reasons as factoring into lower labor force participation, including "simple discouragement, poor work incentives created by public policies, inadequate schooling and training, and a greater propensity to seek disability insurance." All of these can be improved with regulatory reform, welfare reform that encourages work and advancement, education reform and job training that includes emphasis on learning non-routine skills, and fundamental tax reform can increase incentives for work as well as drive investment and productivity. These are all important elements in reinvigorating the reward of work and renewing the American Dream.

A dynamic labor force with the ability to adapt to the skills demanded in the labor market will continue to be an imperative for a strong economy. What remains to be seen, given these trends and lower labor force participation, is whether Americans can remain as economically mobile as they have in the past, or even improve their upward mobility.

With that, I look forward to discussing these issues in more depth with our witnesses today.

I now recognize Ranking Member Maloney for her opening statement.

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## PREPARED STATEMENT OF HON. CAROLYN B. MALONEY, RANKING MEMBER, JOINT ECONOMIC COMMITTEE

Thank you Chairman Coats for calling today's hearing.

There seems to be a broad consensus these days that the economy is stronger than it has been in years.

The evidence is undeniable that the labor market is on a much stronger footing. As you can see in this chart, we've had a record 64 straight months of private-sector job growth—with businesses creating 12.8 million jobs during this time.

Under the leadership of President Barack Obama, the unemployment rate is 5.3 percent, close to current estimates of what economists call its "natural rate."

There has also been substantial improvement in the broadest measure of unemployment—the U–6 rate—which includes discouraged workers not in the labor force as well as those working part time who would like full-time work.

Let's remember how far we've come. When President Obama took over for George W. Bush, our economy was in a dire situation. By some measures, the Bush-era Great Recession was worse than the Great Depression.

We were losing around 800,000 jobs a month. In the final quarter of 2008, GDP had shrunk by a staggering 8.2 percent. During the toughest days, there were nearly seven job seekers for every one job. U.S. household wealth fell by about $13 trillion from its peak. Housing prices were collapsing.

But bold action by President Obama and Democrats in Congress, as well as by the Federal Reserve, helped put our nation back on track.

My Republican colleagues opposed many of the measures that helped reverse the economic freefall. They predicted dire consequences. But those predictions have been proven wrong. Now they are left with the weak claim that good job numbers aren't really good news.

And that brings us to today's hearing. While it is true that economists are concerned about the declining labor force participation rate, much of this decline is structural and it long pre-dates the Obama administration.

My Republican colleagues act like this is a new phenomenon. They gloss over the fact that the labor force participation rate fell over the course of the George W. Bush administration.

And they ignore that the labor force participation rate for men has been falling since the early 1950s . . . as you can see in this chart . . .

. . . including through the Reagan, Bush I, Clinton and Bush II administrations.

Economists have long anticipated the recent decline in the labor force participation rate—and they predict that it will continue over at least the next 10 years.

In 2006, economists at the Federal Reserve predicted that participation rate would fall to 63.3 percent in 2013—and that's exactly what happened.

The decline in labor force participation is largely driven by demographics—principally, the retirement of the baby boomer generation.

The first baby boomers began to retire in 2008, when they turned 62 and became eligible for Social Security early retirement benefits. And they continue to retire at a rate of about 4 million a year—or more than 10,000 every day.

In fact, the working lives of the baby boomers roughly track the rise and fall of the labor force participation rate.

This chart shows the rise and fall in the percentage of Americans in their prime working years (25–54).

The Council of Economic Advisers estimated that HALF of the 3.1 percentage point decline in labor force participation from fourth quarter of 2007 to second quarter of 2014 was due to the population aging. Other economists have reached similar conclusions.

Let's be clear—the fact that older Americans are able to retire is a good thing. But it also lowers the labor force participation rate. This is not the fault of Barack Obama or any other president.

There is a second important factor that helps to explain the decline in the overall labor force participation rate—the declining number of young people in the work force.

But young people are working somewhat less for a perfectly good reason—they are going to college!

In 1970, less than a quarter of 20 to 24 year olds went to college. By 2013, that number had climbed to nearly half (46.4 percent) as you can see in this chart.

When young people choose to get an education instead of going directly to work, it reduces the labor force participation rate in the short term. However, in the future they likely will make more money, contribute more to the economy and have higher labor force participation rates.

Let me say something that we should all agree on . . .

. . . we need to build an economy that creates enough good-paying jobs to keep more men and women in the labor force.

There are five things we can do right now toward that end.

First, we should invest in infrastructure to rebuild our roads and bridges, create good-paying jobs and improve U.S. competitiveness.

Second, we need family-friendly workplace policies that will boost employee retention, lift worker morale and can increase participation in the workforce. When policymakers make it easier to balance work and family, more people will be able to enter and remain in the labor force, especially women.

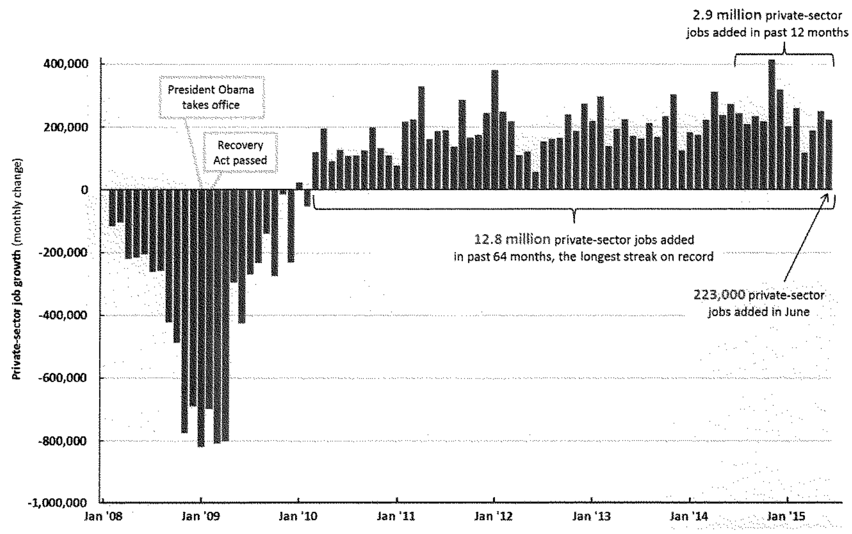
Third, we should expand the Earned Income Tax Credit (EITC), an initiative that has proven to boost labor force participation among low-income workers.

Fourth, we should pass a second-earner tax credit, like the one President Obama has proposed. This would help 24 million families where both spouses work to offset the costs of commuting and child care, making it more financially attractive for the second earner to remain in the labor force.

Fifth, we should pass immigration reform. According to CBO, the bipartisan immigration bill passed by the Senate in 2013 would have increased the labor force by about 6 million workers in 2023.

I hope that today we can have an even-handed discussion of labor force participation and related issues. I look forward to our witnesses' testimony.

# Longest Streak of Private-Sector Job Growth Continues



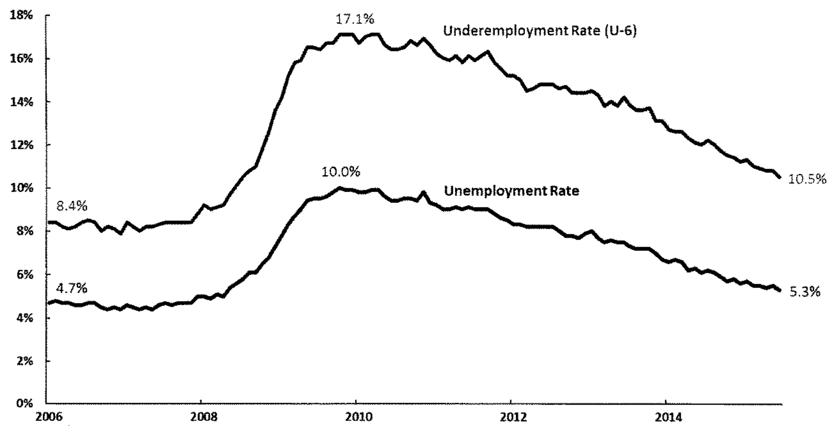

Source: JEC staff calculations using data from the Bureau of Labor Statistics

Slide 0

JOINT ECONOMIC COMMITTEE

# Unemployment and Underemployment Rates Have Declined Significantly from Recession Peak

January 2006 to June 2015




Source: Bureau of Labor Statistics

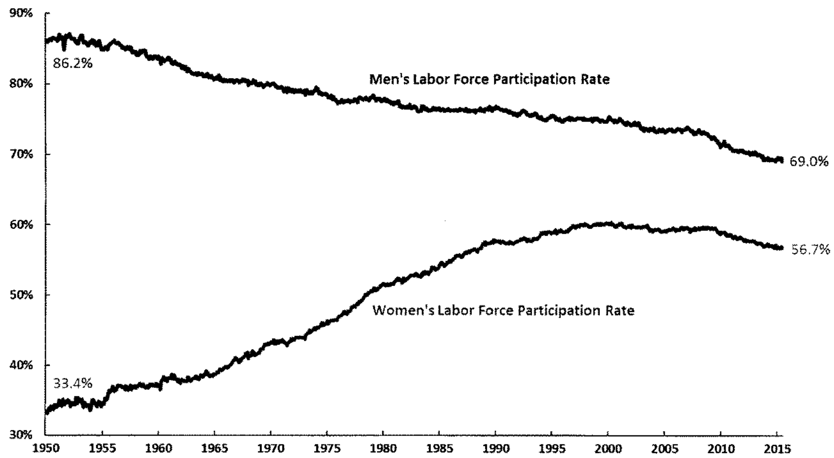
Notes: "Underemployment Rate (U-6)" includes those marginally attached to the labor force and those employed part time for economic reasons; seasonally adjusted data

Slide 5

JOINT ECONOMIC COMMITTEE
RANKING DEMOCRAT CAROLYN B. MALONEY

# Labor Force Participation Rates by Gender

January 1950 to June 2015




Source: Bureau of Labor Statistics

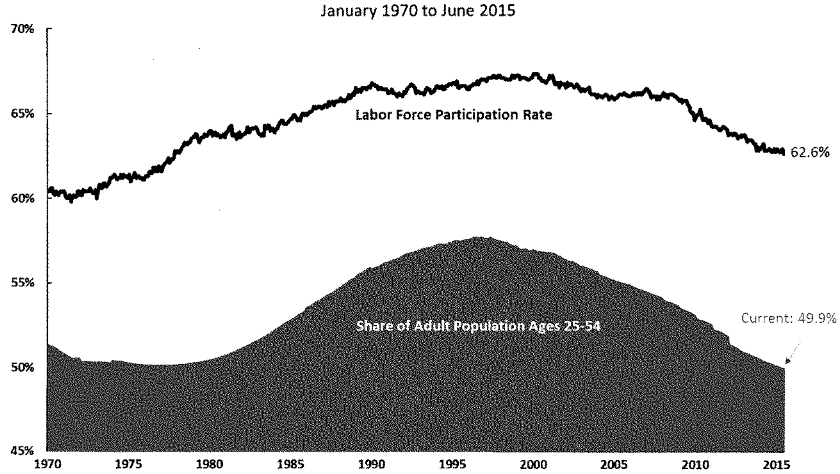
Notes: Seasonally adjusted data; 16 years and over

Slide 3

JOINT ECONOMIC COMMITTEE

# Labor Force Participation Rate and Share of Adult Population in Prime Working Years (Ages 25-54)

January 1970 to June 2015




Source: Bureau of Labor Statistics

Notes: "Labor Force Participation Rate" is seasonally adjusted and ages 16 years and over; "Share of Adult Population Ages 25-54" is not seasonally adjusted

Slide 1

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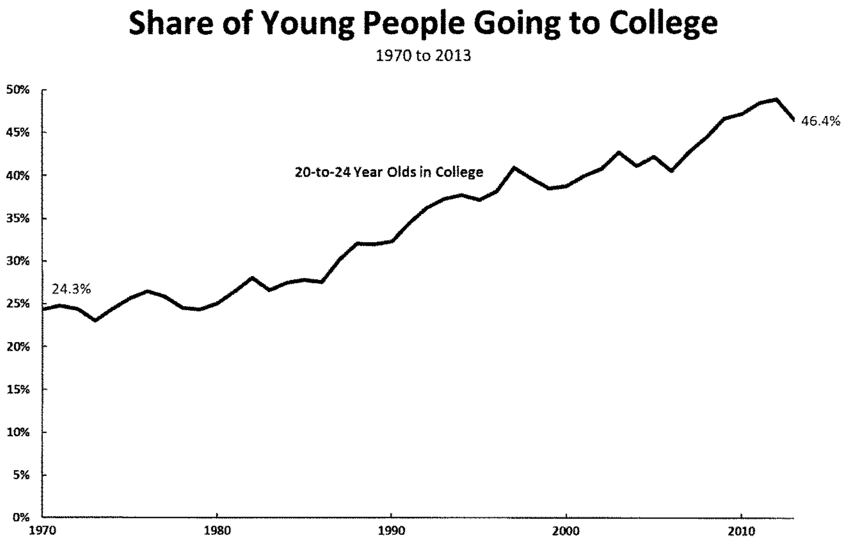


Sources: JEC Democratic staff calculations based on data from the Bureau of Labor Statistics and U.S. Census Bureau, Current Population Survey

Notes: "College" refers to the number of undergraduate, two-year college, and graduate students; share is based on the relative civilian non-institutional population

Slide 7

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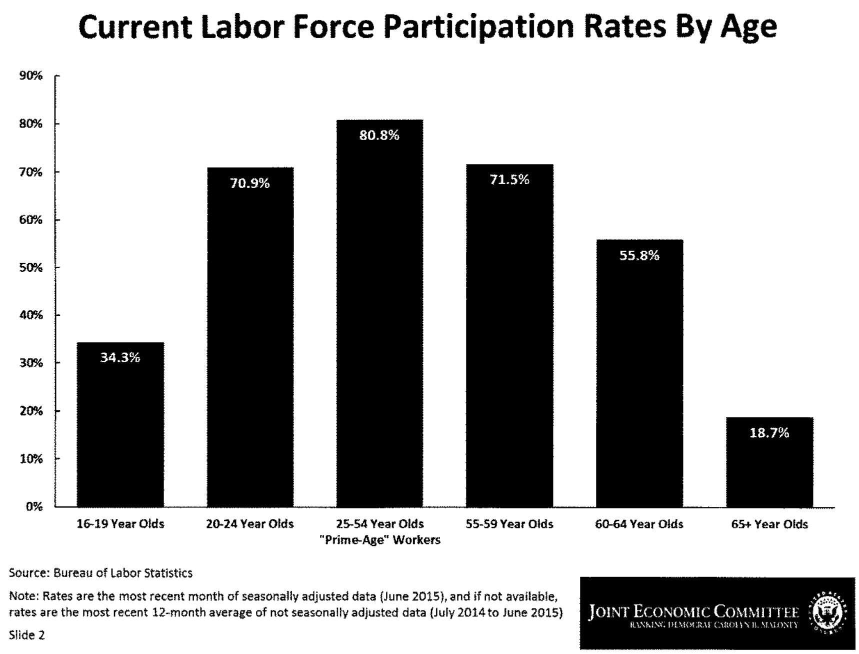
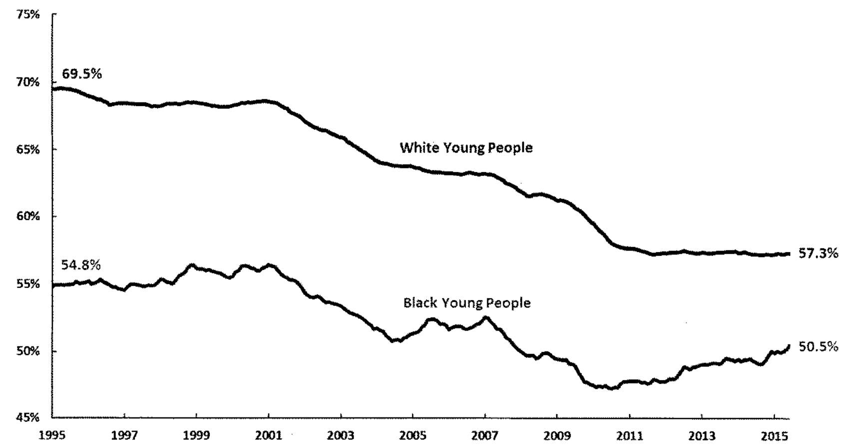

Current Labor Force Participation Rates By Age
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
34.3%
70.9%
80.8%
71.5%
55.8%
18.7%
16-19 Year Olds
20-24 Year Olds
25-54 Year Olds
"Prime-Age" Workers
55-59 Year Olds
60-64 Year Olds
65+ Year Olds
Source: Bureau of Labor Statistics
Note: Rates are the most recent month of seasonally adjusted data (June 2015), and if not available, rates are the most recent 12-month average of not seasonally adjusted data (July 2014 to June 2015)
Slide 2
JOINT ECONOMIC COMMITTEE

# Labor Force Participation Rates of Young People By Race

16-24 year olds, January 1995 to June 2015




Source: JEC Democratic staff calculations based on data from the Bureau of Labor Statistics

Note: Rates are the 12-month moving average of not seasonally adjusted data

Slide 4

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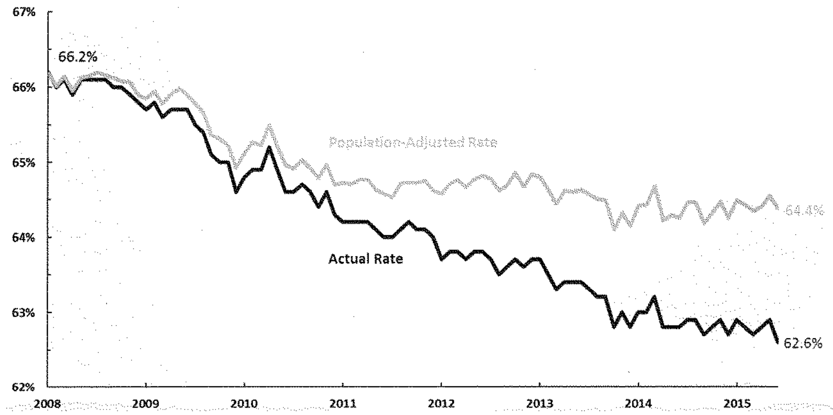
# Aging Trends Explain Half of Decline in Labor Force Participation Rate

January 2008 to June 2015




Source: JEC Democratic staff calculations based on data from the Bureau of Labor Statistics

Note: The "Population-Adjusted Rate" calculation denotes what the "Actual Rate" would be without aging trends starting in the year 2008

Slide 6

JOINT ECONOMIC COMMITTEE
RANKING DEMOCRAT CAROLYN B. MALONEY

Testimony of Scott Winship
Walter B. Wriston Fellow, Manhattan Institute for Policy Research
Before the United States Congress Joint Economic Committee
Hearing on "What Lower Labor Force Participation Rates Tell Us about Work Opportunities and Incentives"
July 15, 2015

Chairman Coats, Ranking Member Maloney, and Members of the Committee, thank you for the opportunity to testify before the Joint Economic Committee today. Policy cannot succeed but accidentally if we do not have a clear understanding of the problems that face us. It is my belief that much of what we think we know about living standards, economic insecurity, and the state of the economy is incorrect, based on a mistaken read of the available data. Furthermore, our misinterpretation of the data, more often than not, translates into an exaggeration of the economic challenges we face. I hope I can illustrate this today and provide a new way to think about labor force participation data and what they mean for opportunity and incentives.

Understanding trends in labor force participation requires that different demographic groups be assessed individually. Failing to distinguish between the experiences of different groups will often cause important details to be missed. In particular, since expectations of and preferences for work have historically differed so much between men and women, it is necessary to examine them separately. Because labor force participation changes throughout the life course, as people move from schooling to work to retirement, age should also be taken into account in assessing trends. Other times, educational attainment or ethnic background are relevant markers for fundamentally different interactions with the labor market.

In my past research, I have examined trends in the labor force participation of men between the ages of 25 and 54.[1] That research found that a strong majority of men in this age range who are out of the labor force—roughly 70 percent on the eve of the Great Recession—tell government surveyors when asked outright that they do not want a job. The increase in their numbers between 1979 and 2006 explains nearly all of the decline in labor force participation among men between the ages of 25 and 54.

Furthermore, roughly half of men in this age range and out of the labor force cite a disability when asked the reason for not working or looking for work. The increase in their ranks explains about one-third of the decline in labor force participation. Most data on health indicators offer little reason to think that disabilities are becoming more common, but receipt of federal disability benefits has increased significantly since the 1980s.[2] Roughly half of the increase since 1989 may be attributed to policy changes that have made it easier to receive disability benefits (and made them more attractive). Federal disability benefits increasingly serve as a shadow long-term unemployment program for a group of able-bodied men with low skill levels.

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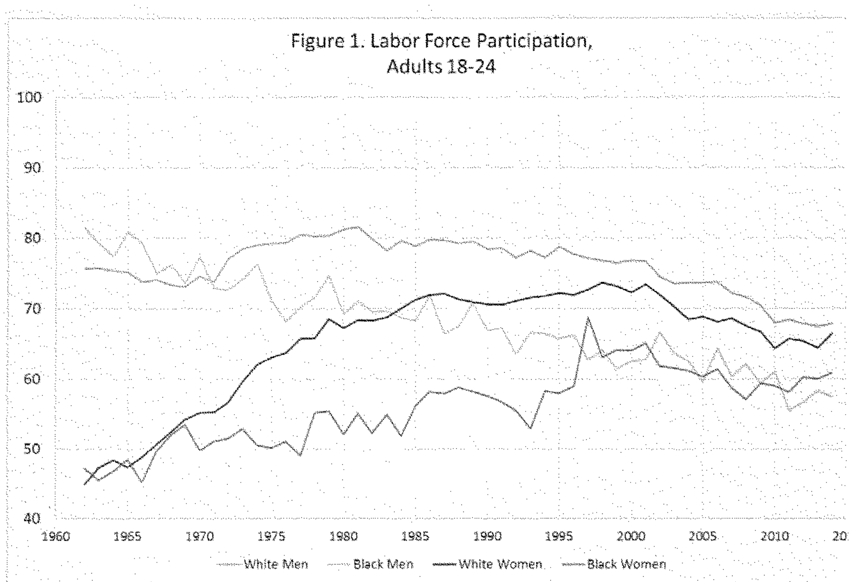
[1] Scott Winship (2015). "Nice Nonwork If You Can Get It," *National Review* 67(1). https://www.nationalreview.com/nrd/articles/395974/nice-non-work-if-you-can-get-it.
[2] Scott Winship (2015). "How to Fix Disability Insurance," *National Affairs* (23). http://www.nationalaffairs.com/publications/detail/how-to-fix-disability-insurance.

Today, I will focus my remarks on the labor force participation of black and white men and women under age 25. The degree to which these groups are attached to the labor force is a vital empirical question, as is the extent to which changes in their labor force attachment reflect on their opportunities. These adults also provide a clear illustration of the ways in which policy can affect incentives to increase labor force participation. Confining the analyses to these groups will also help to make manageable the task of illustrating how tricky it is to make sense of seemingly straightforward data.

Figure 1 displays labor force participation trends for adults 18 to 24, broken out by sex and race.[3] Considering women first, black and white women had the same labor force participation rates during the 1960s, but a gap opened up in the 1970s and widened through 1993. For both groups, participation rose through 1997 (for black women) or 1998 (for whites). White women's participation began to plateau starting in 1987 after having risen consistently since at least 1962.



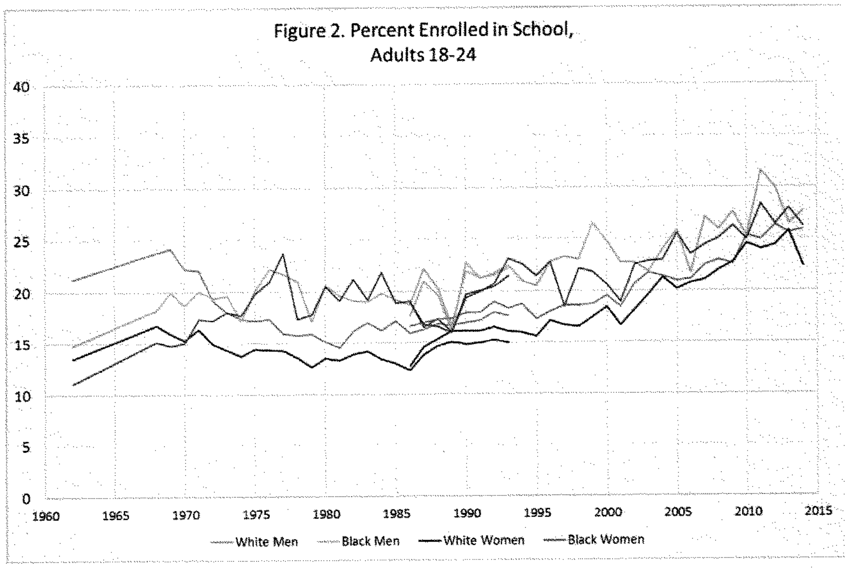

[3] All of the analyses in this testimony rely on my analyses of the Annual Social and Economic Supplement to the Current Population Survey. They exclude Hispanics, nonwhites other than African Americans, and multiracial adults. They also exclude members of the Armed Services and the institutionalized, including the incarcerated. The latter point should be kept in mind, since incarceration has risen over time, and more so for African American men than for others. The Current Population Survey does not include the institutionalized population or non-civilians living on military bases.

The increase in participation among young black women was not as continuous, and unlike the rate for white women, participation fell significantly from 1988 to 1993—to below its 1969 level. Strikingly, however, the participation rate for young black women jumped from 53 percent to 69 percent in the four years between 1993 and 1997. That increase is unlike anything else in the chart and begs for an explanation.

Before turning to that, however, it is worth examining the trends for young men, among whom labor force participation has been on the decline for decades. It peaked for white men in 1981, while the black participation rate has declined steadily since at least 1962. The labor force participation rate was actually higher among young black men than among whites during the 1960s, but the two rates crossed over around 1970. The gap that opened up during the 1970s barely narrowed at all thereafter.

Since young black men were the only group not to experience a rise in labor force participation at some point over the period, it is tempting to conclude that the black male trend is an especially alarming outlier. However, as we will see, Figure 1 presents too pessimistic a picture of how the labor market is performing. Labor force participation can fall for reasons we should celebrate, and it can rise due to developments that are concerning. An increase in school enrollment, for instance, will lower labor force participation, while a decline in school-going will raise it. Trends in school enrollment turn out to matter a great deal in assessing the patterns in Figure 1.

Figure 2 shows trends in school enrollment, using overlapping series based on distinct survey responses. In the set of estimates for the earlier period, enrollment rates indicate the percent of people for whom being in school was the major activity in which they were engaged and who were out of the labor force. The estimates for the more recent period indicate the share of people who were enrolled in school and were outside the labor force. The two series tell the same story, as can be seen looking at the years in which they overlap, from 1986 to 1993.




White and black men and women all experienced the same broad enrollment rates and trends after the early 1970s. Among white men, the drop in participation after 1981 coincides with an increase in school enrollment starting the same year. The 12-point rise in their enrollment after 1981 corresponds to the 13.5-percentage-point drop in labor force participation shown for them in Figure 1. Among white women, labor force participation fell 7 points from its peak in 1998 to 2014, and school enrollment rose 6 points. Among black women, the 8-point drop in participation after 1997 was matched by an 8-point rise in school enrollment.

School enrollment trends can also partly explain why black male labor force participation rates have fallen without pause while white men saw a temporary increase in participation. In 1969, young black and white men had the same labor force participation rates. But between 1969 and 1981, white male labor force participation rose by 8.5 points, while it fell among black men by 2.5 points. This gap has persisted ever since.

What happened during the 1970s? Figure 2 reveals that school enrollment among white men fell substantially, from 24 percent to 14.5 percent—a 9.5-point drop that then persisted, leaving enrollment below its 1962 level until 2003. The decline primarily occurred between 1969 and 1973, a period that also accounted for much of the increase in white male labor force participation. In 1969, school enrollment among young men was more or less at a historic high point. In part this was because the Vietnam War had provided veterans with benefits from the GI bill and given potential draft inductees incentive to stay in school to obtain a deferment.

Meanwhile, young black men had roughly the same school enrollment rate in 1981 as they did in 1969, putting school-going higher among them than among their white peers.[4] As a consequence, their labor force participation did not rise. Over the whole 1962 to 2014 period, black male labor force participation fell by 24 percentage points. The share in school and not in the labor force rose by 13 points though. Among white men, labor force participation fell by just 8 points, but the share in school and out of the labor force rose by 4 points.

In Figure 1, then, young black men look like an outlier relative to other groups in that their participation rate shows no increase before falling in subsequent years. However, taking school enrollment into account, it appears that young white men would have experienced a more similar trend if not for the fact that their Vietnam-War-era school enrollment was artificially high, making their late-1960s labor force participation artificially low. Much of the decline in young black male labor force participation reflects the positive trend of rising school enrollment, and much of the rise in young white male labor force participation relative to the black rate reflects the negative trend of falling white male school enrollment.

Meanwhile, school enrollment also rose among young black and white women, but their labor force participation rates rose nevertheless. In part, and particularly for white women, that increase reflects the secular rise in attachment to work among young women as more and more pushed back the ages at which they married and had children. But through most of the 1970s, the labor force participation rate of black women stagnated while it continued marching upward among white women.

School enrollment rates again hold part of the answer to this racial difference. Though greater work among women exerted upward pressure on participation rates for both white and black women, school enrollment levels fell among white women during the 1970s while they rose by 5.5 percentage points among black women. School enrollment among black women exceeded that of white women after 1971, when most of the black-white participation gap developed.[5]

In 1988, the labor force participation rate of young black women was 11.5 points higher than in 1962. From 1988 to 1993, however, the participation rate of black women fell by 6 percentage points—another feature of Figure 1 that looks alarming. But the share of black women in school and out of the labor force also rose by 6 points (compared with less than 1 point for white women).

To put Figure 1 in the proper perspective, taking school enrollment into account, Figure 3 shows trends in the share of men and women who are either in the labor force or in school. These estimates look less worrisome than the conventional ones that don't distinguish students from other people out of the labor force. Among young white men, the decline was only from 97 percent to 94 percent. The drop for young black men was from 96 percent to 85 percent—a decline of 11 points instead of the 24-point drop in labor force participation. The share of young white women in the labor force or in school peaked at 91

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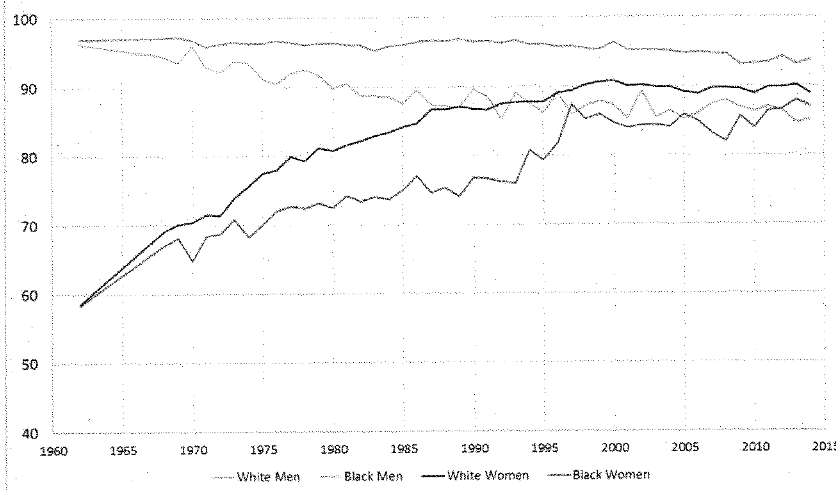
[4] Note that in Figure 2 and throughout these analyses, the school enrollment rates include only those students who are not in the labor force as being enrolled. White enrollment levels look better relative to those of blacks when students who are also in the labor force are included. Because I am trying to ascertain the effect on the labor force participation rate of school enrollment, the estimates provided here are the appropriate ones.

[5] Again "enrollment" here means "enrolled and not in the labor force." School enrollment rates conditional on labor force participation are generally higher for whites than for blacks, but since blacks are less likely to be in the labor force, more of them are both enrolled and not in the labor force than is the case for whites.

percent in 2000 and was still 89 percent in 2014. Among young black women, the share reached 87 percent in 1997 and remained at 87 percent in 2014, barely lower than among white women.

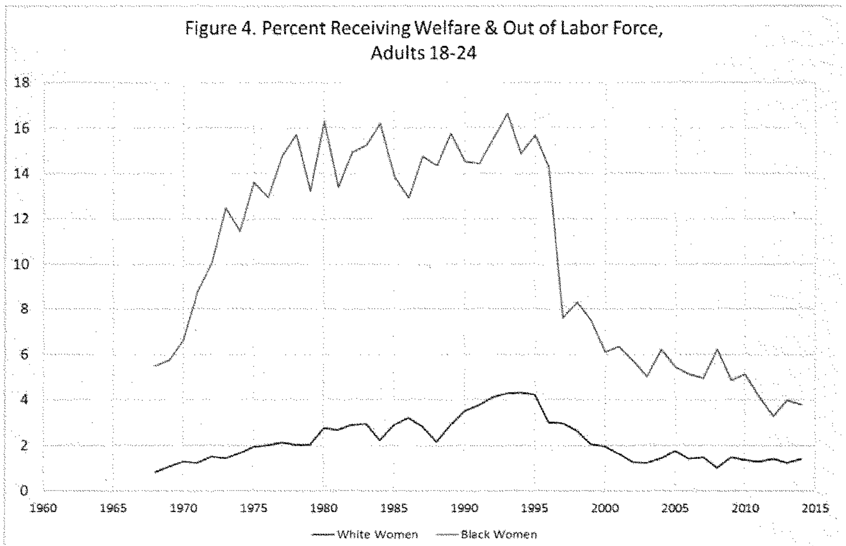
Figure 3. Percent in Labor Force or School, Adults 18-24




One notable feature of Figures 1 and 3 left to explain is the rise in the share of young black women in the labor force during the mid-1990s. In 1993, the labor force participation of black women was lower than that of white women by 19 percentage points despite being nearly equal in 1969. The share in the labor force or in school was lower by 12 percentage points. From 1993 to 1997, however, the share of young black women in the labor force or in school jumped by 11 percentage points, putting them above black men and nearly at the level of white women.

What occurred during this period? Between 1993 and 1997 two major policy reforms created strong incentives for single mothers to look for employment rather than remaining out of the labor force and depending on cash welfare assistance. In 1993, the Earned Income Tax Credit (EITC) was expanded to support more low-wage workers more generously. And in 1996, the cash welfare program, Aid to Families with Dependent Children (AFDC) was converted to Temporary Assistance for Needy Families (TANF). Under TANF, cash assistance was time limited, and work requirements were imposed on recipients. The entitlement to assistance was eliminated, and states were given broad latitude to design their TANF programs as they saw fit. The result was an unprecedented decline in caseloads. The combination of the expanded EITC and welfare reform raised the employment rates of single mothers significantly during the 1990s.[6]

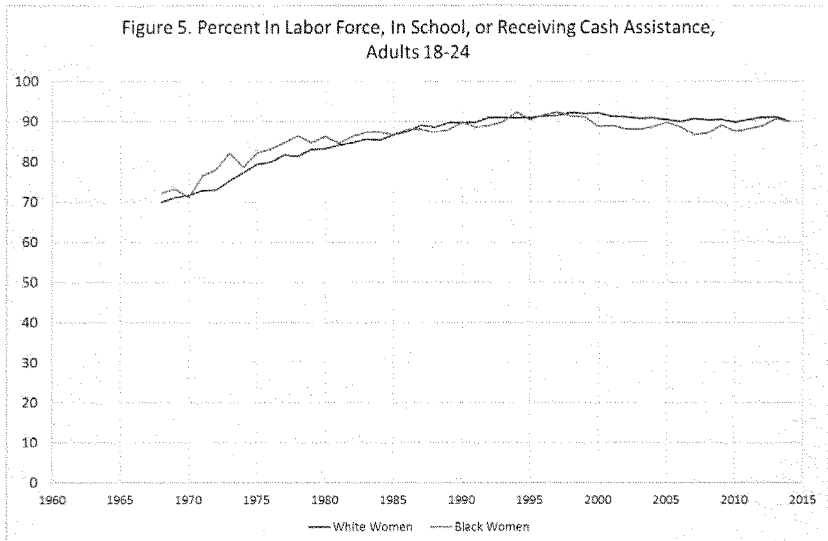
Figure 4 suggests how this social policy revolution affected the labor force participation of young black and white women. It shows the percentage of women who received either AFDC, TANF, or Supplemental Security Income (SSI) benefits and who were not in the labor force.[7] First, the chart reveals that the widening of the participation gap between black and white women during the 1970s was related to the widening gap in welfare receipt. The participation gap grew by 6.5 points between 1968 and 1980, while the welfare-receipt gap increased by 9 points.




Second, Figure 4 shows that the sharp 11-point rise in the labor force participation rate of young black women between 1993 and 1997 was largely due to a 9-point drop in the share of them who received cash assistance and did not participate in the labor force. In 1993, 17 percent of young black women received cash assistance and were out of the labor force, compared with 4 percent of white women. By 1997, the figures were 8 and 3 percent, respectively. In 2014, 4 and 1.5 percent.

[6] Scott Winship (2015). "Will Welfare Reform Increase Upward Mobility?" http://www.forbes.com/sites/scottwinship/2015/03/26/will-welfare-reform-increase-upward-mobility/.
[7] SSI is a cash assistance program for adults and children with disabilities, but it has expanded in recent decades to cover many families with children who do not have severe physical or mental disabilities.

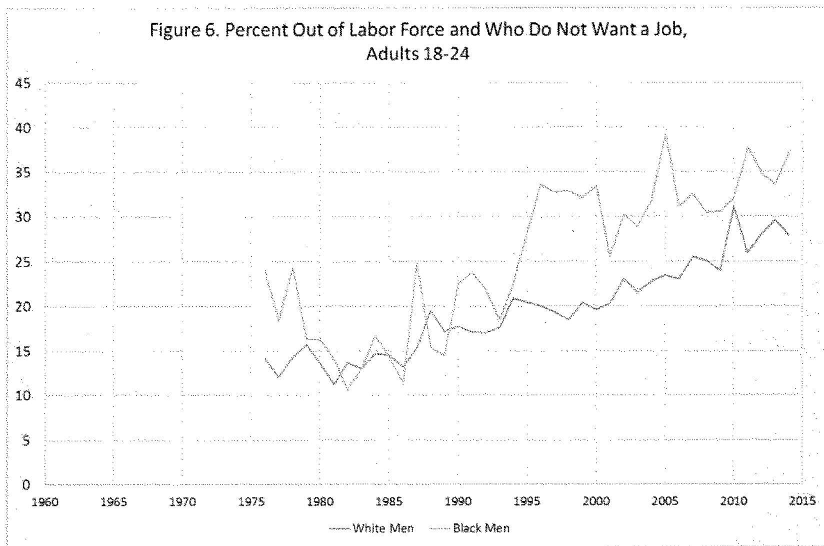
The result of taking into account welfare receipt is the remarkable Figure 5:




School enrollment and welfare receipt, together, explain the differences in the black and white levels of and trends in labor force participation among young women. They also explain the decline in women's labor force participation since the late 1990s.

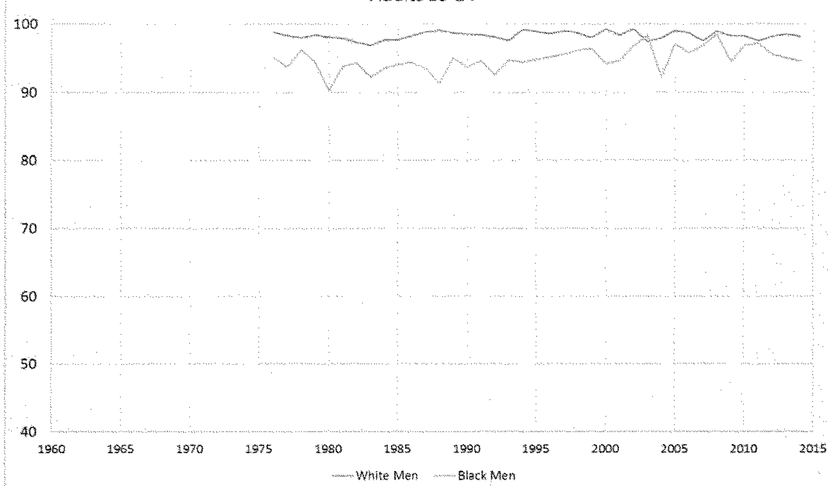
Having explained the factors behind the labor force participation of young women, let us see if we can crack the last nut and explain the remaining features of the male labor force participation trends in Figures 1 and 3. Taking a cue from my past research indicating that most men out of the labor force between the ages of 25 and 54 do not want a job, we can see whether changes in these preferences or racial differences in preferences shed any light on the patterns in Figures 1 and 3.

Figure 6 shows, from 1976 forward, the share of young black and white men who are both out of the labor force and do not want a job. A gap opens up between 1993 and 1996 in that the growth of this group is greater for black men than for whites. But among both white and black men, a rising share are out of the labor force voluntarily. Note that this group overlaps significantly with the group of men enrolled in school (many of whom do not want a job).




Finally, Figure 7 shows, for young black and white men, the share who are in the labor force, enrolled in school, or who are out of the labor force but do not want a job. Very few young men are out of the labor force, not in school, and would like to have a job. Put another way, nearly all young men who want a job are either working or looking for work. Instead of worrying that one-third of young white men are out of the labor force, we should reassure ourselves that the economy is serving most of them well—just 2 percent are out of the labor force, not in school, and would take a job if one were available. Among young black men, the equivalent estimate is 5.5 percent (not the 43 percent we would fret over if we interpreted the labor force participation rate as problematic).

Figure 7. Percent in Labor Force or School or Who Do Not Want a Job, Adults 18-24




Nor is there a trace of a worsening problem in Figure 7; the declining participation rate in Figure 1 is revealed to be potentially benign. Nor is there much of a racial disparity in the chart. In short, we have largely succeeded in explaining the striking features of male labor force participation in Figure 1 by referencing just two factors—school enrollment and preferences for being out of the labor market. For women, there are also two factors sufficient to explain the patterns—school enrollment and welfare receipt.

To conclude, it is easy to misinterpret labor force participation trends in such a way that it appears the labor market is failing workers, and increasingly so over time. A deeper look at men and women under age 25 reveals that the worrisome declines and disparities have relatively simple explanations, many of which suggest benign sources. For one, school enrollment rates have risen among most groups examined here, causing labor force participation to fall. In other periods, falling school enrollment—particularly among white men—makes labor force participation rise, but we should not necessarily view this in a positive light.

Second, among young women, differences in welfare receipt is an important factor behind black-white differences in labor force participation. What is more, the welfare reforms of the 1990s clearly increased labor force participation, affecting black women in particular. As I have written elsewhere, welfare reform clearly benefitted single mothers on net; it is a remarkably successful example of how government can affect incentives to expand opportunity.[8]

Third, some of the drop in male labor force participation, and much of the black-white gap in participation, is explained by a rise in the number of young men who are out of the labor force but, for various reasons, do not want to work. Here is the most ambiguous finding in these analyses. We should not worry that preferences for work are changing, so long as state and federal governments are not footing the bills of non-workers. If more young men are going to school or—perhaps because they live with working partners or spouses—taking more time to find their next job, there may be no reason for policymakers to step in. However, if federal disability programs are subsidizing the leisure of people who could support themselves, or if federal revenues suffer because of the growth of the underground economy and tax evasion, then it could be worth addressing the increasing preference for non-work that survey respondents assert.

On close inspection, the American economy is revealed to be better at providing opportunity than the conventional wisdom has it, policies to promote independence look successful, and our employment problems start to look more like supply-side issues than matters of insufficient labor demand. Policymakers should focus on continuing to reform safety net programs with perverse incentives that impede opportunity, and they can focus on increasing economic growth rates secure in the reality that the American economy is not fundamentally broken.

[8] Scott Winship (2014). "Work-Promoting Safety Net Reforms Have Helped the Poor," http://www.forbes.com/sites/scottwinship/2014/06/19/work-promoting-safety-net-reforms-have-helped-the-poor/.

American Enterprise Institute
for Public Policy Research

Statement Prepared for the Joint Economic Committee Hearing on

"What Lower Labor Force Participation Rates Tell Us about Work Opportunities and Incentives"

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American Enterprise Institute

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*The views expressed in this testimony are those of the author alone and do not necessarily represent those of the American Enterprise Institute.*

## 1. Introduction

The Great Recession has been severe on many measures, but particularly in its impact on the labor market. The most recent jobs report showed healthy job gains of 223,000 in June and an unemployment rate of 5.3 percent. However, labor force participation remains at a historically low rate of 62.6 percent. Nearly 6.5 million persons were employed part-time involuntarily because they could not find a full-time job, while another 1.9 million wanted a job but had not searched for work in the previous few months because they were too discouraged to look. Another 2.1 million workers have been jobless for 27 weeks or more.[1]

Over the course of the Great Recession and recovery, the official unemployment rate initially increased from 5 percent in December 2007 to a peak of 10 percent in October 2009. This five percentage point increase in the unemployment rate is the largest in the postwar period. Since mid-2010, the rate has slowly fallen back to its pre-recession level. However, the official unemployment rate, the U-3 rate, is not the only indicator of how well the labor market is doing. One reason is that only people who report themselves as currently searching for a job are counted as unemployed. A broader measure of underemployment, the U-6 rate, includes individuals who may be too discouraged to look for work, who may have settled for part-time jobs involuntarily, or who may only be marginally attached to the labor force because they have not looked for a job due to family responsibilities or schooling. The U-6 rate stands at 10.8 percent nearly double the official unemployment rate. Even though this rate has been declining over the course of the last few years, it remains elevated and this suggests that there are many more discontented individuals in the labor market than the official rate would suggest. The long-term

[1] The most recent data from the Bureau of Labor Statistics is available at http://www.bls.gov/news.release/empsit.nr0.htm

unemployment rate is also at a postwar high. If workers are too discouraged about the prospects of finding a job, the labor force participation rate for the U.S. economy will continue to decline.

This is exactly what we see in the data. The labor force participation rate in the U.S. is at historic lows. In June 2015, nearly six years after the official end of the Great Recession, the labor force participation rate is at 62.6 percent, a rate not seen since 1978. Between 2007 and today, most economic indicators have been trending in the right direction but improving slowly, while labor force participation rates are trending in the wrong direction (See Figure 1 in Appendix). For instance, unemployment and the share of long-term unemployed have been declining while average wages have trended up marginally over the course of the recovery. However, labor force participation rates are still declining. This is a worrying trend that needs attention, particularly because participation is declining not just among retiring baby boomers but also among people at prime working age and youths. In a 2006 Journal of Economic Perspectives article, Juhn and Potter (2006) show that the 2001 recession resulted in a similar dip in the participation rates for men and women many years out into the recovery.[2] However, it was not clear whether this decline represented a mere slowing down in the participation rate or a more permanent withdrawal from the labor force for those who were not employed. We are witnessing something similar in this recession: it is not clear whether individuals have simply exited the labor market for good or whether they are temporarily discouraged and will rejoin the workforce once better times return.

This labor market slack has resulted in weak wage growth. A recent study from the Federal Reserve Bank of Atlanta suggests that the large supply of unemployed and underemployed workers, which include part-time workers who want full-time jobs, could be restraining wage

[2] Chinhui Juhn and Simon Potter, "Changes in Labor Force Participation in the United States," *Journal of Economic Perspectives* 20(3), Summer 2006. Accessed at https://www.aeaweb.org/articles.php?doi=10.1257/jep.20.3.27

growth.[3] Further, while full-time workers experienced year-over-year median wage gains of 3 percent in 2014, part-timers experienced wage growth of about half as much as that of full-time workers from 2011 to 2013. Hence an elevated share of part-time workers may have depressed overall hourly wage growth.

There are many reasons why labor force participation may be low and significant slack still remains in this recovery which I will explore in my testimony. However, the more important question is whether we can adopt policies to increase participation and which policies may work. In the next two sections, I provide a brief overview of recent research studies focusing on the labor market during and after the Great Recession. In section IV, I discuss a set of policy ideas that may help raise participation rates. Section V concludes.

## II. Recent Research on the Labor Market

A number of papers have attempted to study job loss, labor force participation and earnings over the course of the Great Recession and recovery. Most recently, Farber (2015) highlights how the mean duration of unemployment spells has been much higher, at 37 weeks, in the current recession as opposed to earlier recessions, where it averaged 27 weeks.[4] Even five years after the end of the Great Recession, mean duration of unemployment remains above levels prior to the Great Recession. This paper also finds that job loss rates were significantly higher for less educated workers than for more educated workers. For instance, the job loss rate was 19.4 percent in 2007-2009 for workers with twelve years of education but was 11 percent for workers with sixteen years of education. Using data from the Displaced Workers Survey, the study finds

[3] Federal Reserve Bank of Atlanta, "Wage Growth a Missing Piece of the Full Employment Puzzle," *2014 Annual Report.* Accessed at https://www.frbatlanta.org/about/publications/annual-reports/2014/wage-growth-missing.aspx
[4] Henry S. Farber, "Job loss in the Great Recession: Historical perspective from the displaced workers survey," National Bureau of Economic Research Working Paper No. 21216, May 2015. Accessed at http://www.nber.org/papers/w21216

that the ability of workers who lost jobs to find employment varies with education, age, gender, race and tenure. In general, more educated, younger, male, white and workers with longer tenure, are more likely to get re-employment. However, on average, it is taking nearly 3-4 weeks longer to find a job today than it did prior to the Recession. Only about 35-40 percent of those who reported losing a job from 2007 to 2009 were employed full time in 2010.

It is also interesting that females are more likely to exit the labor force subsequent to job loss. Similarly, workers aged 55-64 are more likely to exit and take early retirement following a job loss. The paper shows that many job losers take up part-time jobs subsequent to job loss. This implies they have lower weekly or hourly earnings and less access to benefits like health insurance as compared to full time workers. On average, earnings for workers who lost full time jobs, declined by 12 percent or more over the Great Recession. This is somewhat steeper than in earlier recessions.

In general, the Great Recession has resulted in much worse outcomes for individuals than in earlier recessions. Even those who lost a job two to four years after the Great Recession have had very low re-employment rates and very low full time employment rates by historical standards. The long run consequences of having long spells of unemployment amplify the problem since such workers may be perceived by employers as less able workers and may have even more trouble finding work.

The labor market is also seeing an increasing polarization in work. Polarization can be a consequence of automation, which happens when machines or computers replace workers in routine tasks. Or it can occur due to international trade or the offshoring of jobs to countries where wages are lower. Jobs in the middle part of the skill distribution are thought to be particularly vulnerable to these two factors since these more generally involve routinized tasks rather than high skill or low skill jobs.[5][6] Data show that over the Recession, middle skill jobs experienced a sharper and more long lasting employment decline than high or low skill jobs. The paper finds that middle skill workers (primarily in manufacturing, construction or clerical work) with no college degree typically leave unemployment and exit the labor market, rather than finding low skill or high skill jobs. This can be explained by the fact that when transitioning out of a job, a middle skill worker needs to invest in more education in order to get a high skill job. About 85 percent of high-skill workers have taken at least some college courses, as opposed to half of middle skill workers. On the other hand, middle skill workers earn considerably more than low skill workers which affects their willingness to take up low skill jobs. In general, participation appears to be a function of education. Workers with the lowest education levels have the lowest participation rates. Results from this study suggest that falling labor force participation among prime-age males can be primarily explained by a lack of demand for middle-skill workers providing a strong link between polarization and labor force participation.

Job to job mobility is a central feature of labor markets and it is generally thought that workers move towards jobs of better quality overall.[7] However, job mobility declined significantly during the Great Recession. This implies that workers were unable to move from poor quality jobs to good quality jobs as easily during the recession as they would have been able to during normal times. A recent paper finds that workers matching during the recession were more likely to match with a low-paying firm and one year later, were less likely to have moved onto a better paying firm. Results suggest that movement up the job ladder, from poor to better quality firms, was 20 percent slower for those working at the lowest paying firms, and as a result

[5] Low skill workers typically include cooks, waiters, security guards etc.
[6] Christopher L. Foote and Richard W. Ryan, "Labor market polarization over the business cycle," National Bureau of Economic Research Working Paper No. 21030, March 2015. Accessed at http://www.nber.org/papers/w21030
[7] Lisa B. Kahn and Erika McEntarfer, "Employment Cyclicality and Firm Quality," National Bureau of Economic Research Working Paper No. 20698, March 2015. Accessed at http://www.nber.org/papers/w20698.pdf

average firm pay was nearly 3 percent lower for those who found a job during the recession. Hence on average job quality went down over the recession. This also affects workers graduating in a recession. The paper finds that these firm dynamics can account for a third of the initial earnings losses experienced by workers graduating into a large recession, and much of the persistence of earnings losses over the early years of the career.

In another paper, authors study labor market slack by studying changes in employment, participation and underemployment.[8] They argue, as I did above, that the unemployment rate is not an accurate measure of labor market slack since for large periods of time in 2010 and 2011, the decline in the unemployment rate occurred mainly because people gave up looking for work and left the labor force, and were therefore not classified as "unemployed". The under-employment rate refers to people working at part-time jobs involuntarily. As a fraction of total employment, the underemployment rate reached a peak in 2009 but has not declined very quickly and is still significantly above pre-recession levels. As a result of high levels of underemployment, wage growth has been weak and will continue to be weak until these rates decline further.

Part-time work has increased significantly over the course of the recession. What is troubling is the extent of increase in involuntary part-time work. Between December 2007 and June 2009, the number of involuntary part-time workers increased by almost 96 percent. In June of this year, there were 6.5 million people who were involuntarily employed in part-time jobs. These workers show up in the broader U-6 rate, also produced by the Bureau of Labor Statistics, which captures all workers who are unemployed, discouraged, or employed only part-time for lack of a full-time job. If we look at the ratio of the U-6 to the U-3 official unemployment rate, there has

[8] David G. Blanchflower and Andrew T. Levin, "Labor Market Slack and Monetary Policy," National Bureau of Economic Research Working Paper No. 21094, April 2015. Accessed at http://www.nber.org/papers/w21094

been a sharp increase in the ratio since 2009.[9] In fact, the ratio has been steadily trending up since the end of the recession (See Figure 2 in Appendix). According to the Bureau of Labor Statistics, the reason for the increase in the ratio is that the number of unemployed workers has fallen faster in relative terms compared to the number of workers who are employed part-time for economic reasons.[10] An increase in part-time work is perhaps to be expected as employers respond to economic uncertainties and possible increases in labor costs, perhaps due to minimum wage changes, regulations and increased expenses associated with the Affordable Care Act. As business conditions improve and employers adjust to new regulations, one would expect these elevated levels of part-time work to decline. However, the slow decline in involuntary part-time work, despite six years of recovery, is a cause for concern. Even as we celebrate the recovery and the strength of the job market, it is important to figure out ways to move people not only out of unemployment, but out of jobs that are dissatisfying and into full-time jobs that are better suited to their needs.

III. Research on Possible Explanations of Labor Market Trends

What could explain some of the observed trends in the labor market discussed above? Davis and Haltiwanger show that slack in the labor market and a decline in worker and job reallocations could be a consequence of government regulations and policies.[11] They point out that government restrictions on who can work in which jobs have expanded over time. Kleiner and Krueger (2013) show that the fraction of workers required to hold a government issued

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[9] Aparna Mathur, "The Slow Decline in Involuntary Part-Time Work," *Forbes,* May 12, 2015. Accessed at http://www.forbes.com/sites/aparnamathur/2015/05/12/the-slow-decline-in-involuntary-part-time-work/

[10] Vernon Brundage, "Trends in unemployment and other labor market difficulties," US Bureau of Labor Statistics, *Beyond the Numbers* 3(25), November 2014. Accessed online.

[11] Steven J. Davis and John Haltiwanger, "Labor Market Fluidity and Economic Performance," National Bureau of Economic Research Working Paper No. 20479, September 2014. Accessed at http://www.nber.org/papers/w20479

license to do their jobs rose from less than 5 percent in the 1950s to 29 percent in 2008. Adding workers who require government certification or who are in the process of becoming licensed or certified shows that this share of workers is close to 38 percent as of 2008. This in turn has led to higher training costs which in turn has affected the mobility of workers across jobs. Other policy interventions matter as well.

Some papers suggest that the record rise in long-term unemployment and the increase in emergency unemployment benefits may have accounted for the increase in long-term unemployment durations among UI recipients.[12] Estimates show that a one week increase in potential benefit duration is associated with increases in the average duration of unemployment spells. So, for example, a 53 week extension in potential benefit duration could be associated with a 4 to 10 weeks increase in unemployment duration among UI recipients.

Other papers review cross-country analyses that show that countries with heavier regulation of labor are likely to see lower labor force participation rates and higher unemployment, especially of the young.[13]

Faber and Mazumdar (2012) suggest that the problem could be a mismatch of skills, for certain groups of workers.[14] They examine the supply and demand for workers across occupations of varying skill requirements. They find that workers in the middle range of skills are the ones for whom employment remains well below pre-recession levels. Hence skills mismatch may be the most for this group. Overall evidence on this is mixed. While some recent papers show that mismatch rose sharply during the recession but then abated, others show that

[12] Michael W. Elsby, Bart Hobijn, and Aysegul Sahin, "The Labor Market in the Great Recession," National Bureau of Economic Research Working Paper No. 15979, May 2010. Accessed at http://www.nber.org/papers/w15979
[13] Juan Botero et al., "The Regulation of Labor," National Bureau of Economic Research Working Paper No. 9756, June 2003. Accessed at http://www.nber.org/papers/w9756
[14] Narayana Kocherlakota, "Inside the FOMC," Speech in Marquette, Michigan, August 17, 2010. Accessed at https://www.minneapolisfed.org/news-and-events/presidents-speeches/inside-the-fomc

employers were able to fill jobs relatively easily during the recession, but their recruiting intensity remained low well after the recession suggesting that they are reluctant to hire.[15]

Mulligan's (2011) work argues that the expansion of the safety net may have led to an increase in unemployment due to a reduction in labor supply. More recent work by Mulligan (2013 and 2014) finds that the increase in tax rates as a result of the ACA and in combination with other features of the Act has resulted in a decline in the rewards to work.[16] [17] For instance, the subsidies provided to workers in households with incomes near the 100-400 percent of poverty create work disincentives. Workers can be denied access to these subsidies if they have a job that provides health insurance, but can get access if they are unemployed. Second, working fewer hours and weeks in a year, or moving from a full-time to a part-time job, also increases the value of the subsidies for persons in jobs not providing health insurance. Hence, at the margin, some individuals may decide to work less since it does not affect their disposable income.

Female labor force participation rates have not increased as the same pace in the U.S. relative to other countries. In 1990, US women had participation rates of 74 percent and in 2010, this increased marginally to 75.2 percent. However, over the same period, other countries have seen an increase in participation rates from 67.1 percent to 79.5 percent, on average. One possible reason is the parental leave system in the U.S. that only guarantees unpaid family leave for 12

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[15] Aysegül Şahin, Joseph Song, Giorgio Topa, and Giovanni L. Violante, "Measuring Mismatch in the U.S. Labor Market," Federal Reserve Bank of New York Working Paper, July 2011. Accessed at http://nyfedeconomists.org/topa/USmismatch_v14.pdf

[16] Casey B. Mulligan, "Average Marginal Labor Income Tax Rates under the Affordable Care Act," National Bureau of Economic Research Working Paper No. 19365, August 2013. Accessed at http://www.nber.org/papers/w19365

[17] Casey B. Mulligan, "The Economics of Work Schedules under the New Hours and Employment Taxes," National Bureau of Economic Research Working Paper No. 19936, February 2014. Accessed at http://www.nber.org/papers/w19936

weeks under the Family and Medical Leave Act of 1993. [18] This has to be done carefully since mandating leave may discourage employers from hiring women and may make them more likely to pay women lower wages. However, the benefits would be that women will be more likely to return to their jobs rather than exit the labor force entirely. Eissa(1995) finds that changes in tax rates matter for female labor force participation. Following the Tax Reform Act of 1986 which reduced marginal tax rates at the top more than at the bottom, the labor supply of high income married women increased.[19]

Since education is clearly a big predictor of labor market outcomes, it is worthwhile to step back and see the choices individuals make prior to being in the labor market. A problem with our economy today is that nearly half of college students drop out before completion. This affects our ability as a society to have a large pool of educated workers who are better able to respond to a change in technologies and skills requirements.[20] Dynarski finds that scholarships or tuition subsidies are significant in helping college goers complete their degree. However, the lesson is not simply to provide direct cash assistance since that by itself may not stop individuals from dropping out, but to ensure that college going individuals are better prepared at the elementary and secondary school levels, and are provided better institutional support while in college.

A related issue is that when these students graduate in a recession, this affects their earnings and their careers.[21] In the first year itself, the fact that these young workers are unable to find

[18] Francine D. Blau and Lawrence M. Kahn, "Female Labor Supply: Why is the US Falling Behind?," National Bureau of Economic Research Working Paper No. 18702, January 2013. Accessed at http://www.nber.org/papers/w18702

[19] Nada Eissa, "Taxation and Labor Supply of Married Women: The Tax Reform Act of 1986 as a Natural Experiment," National Bureau of Economic Research Working Paper No. 5023, February 1995. Accessed at http://www.nber.org/papers/w5023

[20] Susan M. Dynarski, "Building the Stock of College-Educated Labor," National Bureau of Economic Research Working Paper No. 11604, September 2005. Accessed at http://www.nber.org/papers/w11604

[21] Joseph G. Altonji, Lisa B. Kahn, and Jamin D. Speer, "Cashier or Consultant? Entry Labor Market Conditions, Field of Study, and Career Success," National Bureau of Economic Research Working Paper No. 20531, September 2014. Accessed at http://www.nber.org/papers/w20531

full-time jobs or employment, means that their earnings are lower by 10 percent in the first year. This is a consequence of their inability to find full-time work as well as a reduction in the average hourly wage. This results in an earnings and wage gap that is long-term and that has been particularly large during the Great Recession.

## IV. Policy Considerations

When discussing policy options to improve labor market outcomes, it is important to remember that outcomes are highly influenced by early investments in human capital and skill development.

For instance, in evaluating lifetime earnings and economic mobility of individuals, an important finding is that many of the outcomes, such as the ability to get good schooling and a job that earns well, may be influenced by factors that affect children in childhood. Whether children grow up in good neighborhoods with access to good schools and social networks, whether they are coming from two-parent families with two educated parents or a single parent with lower levels of education, and which neighborhoods they grow up in, matters. As per a recent study, moving to better neighborhoods at young ages could improve lifetime earnings significantly.[22] Therefore, experimenting with solutions that allow low-income families to move from high-poverty to low-poverty areas could help improve long-term economic mobility.

Changes in family structure also influence early investments in human capital. As documented in recent studies, there has been a near doubling of homes headed by single mothers. Single mothers are five times more likely to live in poverty as compared to families headed by a married parent. Children growing up with single mothers have a poverty rate of 55 percent

[22] Raj Chetty, Nathaniel Hendren, and Lawrence F. Katz, "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment," National Bureau of Economic Research Working Paper No. 21156, May 2015. Accessed at http://www.nber.org/papers/w21156

compared to 10 percent for children living in married parent households. As a result, these children have access to far fewer opportunities, and children are disadvantaged when it comes to school readiness. To improve outcomes for these families, we should consider expanding the EITC. This helps to encourage labor force participation for single mothers and boosts family incomes, which is helpful for children as well.[23] Dahl and Lochner find that a $1000 increase in income as a result of the EITC raises children's combined math and reading test scores in the short-run.[24] Further, expanding school choice to allow low-income children to access good schools such as through a lottery could be extremely helpful in segregated communities where children are often stuck to poor quality schools.

To improve high school completion, TANF programs in all states should impose an eligibility requirement that school age dependents be enrolled in school. This would likely be a significant incentive for parents on welfare to ensure their children go to school since there are thousands of dollars on the line. For example, one interesting study evaluated the impact of Wisconsin's Learnfare program, a welfare waiver program that sanctioned the welfare benefits of families whose teenage children did not meet school attendance requirements. Dee (2011) found that Learnfare was extremely successful at targeting at-risk students and promoting school attendance among this group.[25] Currently, 15 states do not require dependents to be enrolled in school when their families are receiving TANF payments. We should make this a priority.

Beyond high school, many low-income individuals are unlikely to pursue a college degree because they do not have enough information about the federal Pell Grant program, how

[23] Nada Eissa and Jeffrey B. Liebman, "Labor Supply Response to the Earned Income Tax Credit," *The Quarterly Journal of Economics* 111(2), May 1996. Accessed online.

[24] Gordon Dahl and Lance Lochner, "The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit," National Bureau of Economic Research Working Paper No. 14599, December 2008. Accessed at http://www.nber.org/papers/w14599

[25] Thomas S. Dee, "Conditional Cash Penalties in Education: Evidence from the Learnfare Experiment," *Economics of Education Review* 30(5), October 2011. Accessed online.

much the grant is likely to be and whether they will be able to pay for it (Avery and Kane, 2004).[26] These compliance costs fall most heavily on low-income individuals which may deter them from applying since the benefits are uncertain. Simplifying the application process could reduce costs and improve the efficiency of the program.

College aid should also be reformed. In 2012, the federal government spent $33.4 billion on Pell Grants, which are needs-based grants for low-income students. However, roughly 7 percent of Pell Grant recipients are above 250 percent of the poverty line, according to the Congressional Budget Office.[27] Resources should be transferred from these students at the upper end of Pell Grant eligibility to students below the poverty line. Aid should also be given with an incentive for students to graduate. Students from the lowest-income quartile historically are six-times more likely not to complete college than students from the highest-income quartile.[28] A recent CBO report proposes restructuring the Pell grant program as a loan program.[29] A student would receive a direct loan at the beginning of a term that would be forgiven at the end of the term if the student completes the class, giving students an incentive to stay enrolled for a longer period. Encouraging the completion of college would greatly improve the mobility of low-income students and help them find jobs upon graduation.

The unemployment rate for young adults (millennials) is nearly double the official unemployment rate. In 2013, about 13 percent of those aged 22-29 had moved back in with their parents due to the recession. They lag in asset accumulation and savings. The average student

[26] Susan M. Dynarski and Judith E. Scott-Clayton, "The Cost of Complexity in Federal Student Aid: Lessons from Optimal Tax Theory and Behavioral Economics," National Bureau of Economic Research Working Paper No. 12227, May 2006. Accessed at http://www.nber.org/papers/w12227

[27] Congressional Budget Office, "The Federal Pell Grant Program: Recent Growth and Policy Options", September 2013. Accessed online.

[28] The data here come from the 1980s. See Martha Bailey and Susan Dynarski, "Gains and Gaps: Changing Inequality in US College Entry and Completion," National Bureau of Economic Research Working Paper No. 17633, December 2011. Accessed at http://www.nber.org/papers/w17633

[29] Ibid at 26.

debt for millennials is $25,000. These negative effects are likely to linger as graduating in a slumping economy typically affects lifetime incomes. For youth graduating into a bad labor market with little prospect of finding a job and burdened with high levels of student debt, I propose expanding the system of paid apprenticeship programs so that they can build up a set of skills that they would need on the job. This would make firms more likely to hire them and increase their chances of finding a job right out of school. This is evident from another Pew Survey where college graduates were asked if in retrospect, they could have better prepared for the type of job they wanted.[30] About half of all college graduates said getting more work experience while still in school would have put them in a better position to get the kind of job they wanted. Another three-in-ten said they should have started looking for a job sooner or picked a different major. Firms could be provided incentives such as tax credits to make them participate in these programs which are clearly beneficial to both sides of the market. Economists David Neumark and Donna Rothstein find that internship/apprenticeship programs could help improve labor market outcomes particularly for disadvantaged youth and those in the "forgotten half" or those less likely to go to college.[31]

To improve labor force participation for women in general, we need to consider ways to provide paid maternity leave so that women retain their attachment to the workforce even after giving birth to a child. I have proposed using the existing system of child related tax credits to fund maternity leave.[32] Broadly, the proposal is as follows. Currently, families with children and child-related expenses are eligible for at least three different types of tax credits. These are the

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[30] Pew Research Center, "The Rising Cost of Not Going to College," *Social & Demographic Trends*, February 2014. Accessed at http://www.pewsocialtrends.org/2014/02/11/the-rising-cost-of-not-going-to-college/

[31] David Neumark and Donna Rothstein, "Do School-To-Work Programs Help the 'Forgotten Half'?," National Bureau of Economic Research Working Paper No. 11636, September 2005. Accessed at http://www.nber.org/papers/w11636

[32] Aparna Mathur, "A Simple Proposal to Fund Maternity Leave," *Forbes,* March 26, 2015. Accessed at http://www.forbes.com/sites/aparnamathur/2015/03/26/a-simple-proposal-to-fund-maternity-leave/

Earned Income Tax Credit, the Child Tax Credit and the Child and Dependent Care Credit. The Child Tax Credit allows households with children to reduce their federal income tax liability by up to $1000 per qualifying child. The credit phases out at higher income brackets. This tax credit is refundable, which means that if the household's tax liability is lower than the size of the credit, they may be able to claim all or the remaining portion of the tax credit as a cash payment.

The Child and Dependent Care Credit is available to working parents who paid expenses for the care of a child. The credit amount is a percentage of total expenses paid, where the percentage depends upon the household's adjusted gross income. The maximum expenses claimed can be $3000 for one child and $6000 for two children. The percentage is 35 percent for those with AGI less than $15,000, and declines successively to 20% for those earning above $43,000. Since this credit is non-refundable, it does not help households who have no tax liability. Finally, the Earned Income Tax Credit is a credit available to low-to-moderate income individuals who work. The size of the credit is larger for households with children. Also, it is a refundable tax credit that is available to all households who do not owe taxes. In 2014, the maximum credit amount ranges from $6,143 for households with three or more qualifying children to $3,305 for households with just one qualifying child.

My proposal has two components. First, make the money available to families at the time they need it i.e. at the time of birth of a child through allowing advance payments on these tax credits to families before the end of the tax year. Second, expand the child and dependent care credit and make it refundable so that low-income families are better able to meet the expenses of childcare that have increased tremendously over time. Under my proposal, low-income families earning approximately $20,000 could be eligible for more than $6,000 in advanced payments through these credits, which could help pay for leave, particularly at the time of birth of a child.

Recent research studying the California program finds that women continued to provide work hours and earn incomes one to three years after the birth of the child, suggesting continued labor force participation and preservation of job-specific human capital.[33]

Occupational licensing in another source of constraints on workers being able to work in the occupations they want. Differences in state licensing requirements can make it difficult for entrepreneurs and workers to find opportunities and jobs, creating stale labor markets and underemployment. Mutual recognition of other state licenses would improve worker mobility and, thereby, boost economic dynamism. Stephen Slivinski, a senior economist at the Goldwater Institute, finds that states with strict occupational licensing standards have lower levels of low-income entrepreneurship.[34]

For our large pool of workers who are long-term unemployed, we need to experiment with new ways of matching them to jobs. I believe that the unemployment benefit programs have to be supplemented by skills training and greater help with matching workers to jobs. It is simply not enough to keep extending benefits if at the end of the benefit period, the worker is still unemployed. The goal of any such program should be to train the worker to transition to a new job, rather than to simply provide cash benefits to allow them to meet their basic needs. For a worker who stays unemployed for more than 6 months, the likelihood of finding a job is extremely low and is unlikely to improve without active help. Towards this end, workers who have been long-term unemployed should be provided training and then placed in jobs through wage-subsidy programs that allow some share of the wages to be paid by the employer and the

[33] Maya Rossin-Slater, Christopher J. Ruhm, and Jane Waldfogel, "The Effects of California's Paid Family Leave Program on Mothers' Leave-Taking and Subsequent Labor Market Outcomes" National Bureau of Economic Research Working Paper No. 17715, December 2011. Accessed at http://www.nber.org/papers/w17715

[34] Danny Vinik, "It's Easier to Become a Barber I n Alabama Than Nevada, Thanks to Crony Capitalism," *The New Republic,* January 18, 2015. Accessed at http://www.newrepublic.com/article/120791/study-occupational-licensing-hurts-low-income-entrepreneurs

rest to be paid by the unemployment insurance program. This would allow employers to test and see if the match with the prospective employee is a good one, while at the same time it would allow workers to receive on the job training and gain experience with the likelihood that they will be able to keep the job. A current experiment along these lines is the Wisconsin Fast Forward Initiative. The program allows employers to apply for grants for worker training, provided the employers hire the workers after they are trained. This enables employers to hire workers and provide them with the skills they need to be productive on the job.

Another idea is to use the UI funds to help start-ups by the unemployed. Research suggests that programs such as these in France and Germany have been successful at helping the unemployed move to become entrepreneurs. For instance, in France, the reform allowed unemployed individuals who started their own businesses to keep their access to unemployment insurance for three years in case their business venture failed.[35] Before the new rule, an entrepreneur would lose his unemployment insurance once he became self-employed. The main objective of the program was to provide insurance against failure and shortfalls in cash flow during the first three years. The study suggests that the program was successful. The monthly entry of new businesses increased 12 percent post-reform. More importantly, the quality of new firms did not deteriorate; there were no significant differences in the failure rate, hiring rate or growth rate of young firms in the industries where the reform had the most impact. In addition, the unemployed entrepreneurs who started these businesses were ambitious about their growth prospects and were interested in hiring new workers. The overall positive benefits included shorter unemployment spells and the reallocation of labor to more productive and higher-paying jobs. This would involve reforming our current Self-Employment Assistance programs that are

[35] Johan Hombert, Antoinette Schoar, David Sraer and David Thesmar, "Can Unemployment Insurance Spur Entrepreneurial Activity? Evidence From France," Accessed at http://www.mit.edu/~aschoar/entrepreneur_revised_final[3].pdf

only available in a few states and are available only to a limited pool of UI recipients. One reason for the low participation is that the program only offers support to workers who are permanently separated and will likely exhaust their unemployment benefits. This likely affects the quality of workers who are eligible for these programs. A redesigned program could make support available to all unemployment insurance recipients across the country and could provide some level of downside insurance for a limited period of time for a new business.

There are some policies that should be beneficial to workers in principle, but which research shows often have unintended, negative effects on workers. Recent increases in minimum wages and the proposal to change overtime rules fall into this category. New research finds that the effect of increases in the minimum wage between 2007 and 2009 was to significantly reduce employment of low-skilled workers.[36] Further, minimum wage hikes increased the likelihood that low-skilled individuals would work without pay, and this was true even for workers with some college education. Finally, this new research tracked workers over time and found that increases in minimum wages had negative medium-run effects on the ability of low-skilled workers to rise up the income ladder. The paper finds that during the late 2000s, effective minimum wages rose by nearly 30 percent and estimates these increases reduced the employment-to-population ratio of working age adults by 0.7 percentage points.

While there is little consensus in the literature on the effect of minimum wage hikes on employment, what is apparent is that following a hike, there is some probability that workers will lose jobs and face losses in income. The workers who retain jobs will be unambiguously better off than before but those who lose their jobs will be much worse off. This is a risky strategy. To

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[36] Jeffrey Clemens and Michael Wither, "The Minimum Wage and the Great Recession: Evidence of Effects on the Employment and Income Trajectories of Low-Skilled Workers," National Bureau of Economic Research Working Paper No. 20724, December 2014. Accessed at http://www.nber.org/papers/w20724

my mind, a risk-free strategy to boost incomes for minimum wage workers is to expand the Earned Income Tax Credit program. The EITC has clear, positive impacts on employment, and has been shown to be beneficial to children in families using the EITC.

Similarly, overtime rules often force employers to cut down on worker hours or base wages in an effort to limit costs, thus resulting in no obvious benefits to workers while imposing substantial costs on employers. A recent study found that many firms, in response to 2004 regulation changes in overtime pay, lowered the base wage in jobs that often required overtime work in order to offset the new higher costs of overtime pay.[37] In particular, workers in minimum wage or near-minimum wage jobs were given fewer overtime hours by their employers. This is likely because at that wage level, employers can no longer adjust wages downward so they are more likely to cut overtime use. An earlier paper studied the impact of overtime regulations by comparing wholesale workers and retail workers between 1938 and 1950.[38] The Fair Labor Standards Act of 1938 mandated time and a half overtime pay for wholesale workers, but not for retail workers. Using this difference in regulation, the author found that overtime mandates reduced the number of hours worked. Among workers in wholesale trade there was a 5 percent reduction in the length of the standard work week and 18 percent fewer men and women reported working more than 40 hours per week. The study also found that changes in hours depended upon whether the employers had flexibility to adjust regular wages. In the South, firms could not adjust wages as much due to minimum wage regulations, so Southern firms cut more hours compared to other regions. Finally, although the FLSA led to reductions in number of hours worked, it had little impact on levels of employment. Therefore, the proposed overtime

[37] Anthony Barkume, "The Structure of Labor Costs with Overtime Work in U.S. Jobs," *Industrial and Labor Relations Review* 64(1), October 2010. Accessed at http://www.jstor.org/stable/20789058
[38] Dora L. Costa, "Hours of Work and the Fair Labor Standards Act: A Study of Retail and Wholesale Trade, 1938-1950," National Bureau of Economic Research Working Paper No. 6855, December 1998. Accessed at http://www.nber.org/papers/w6855

legislation might lead to further increases in the pool of workers unable to find full time jobs, not an outcome we would like to move to.

## V. Conclusion

To conclude, six years after the end of the Great Recession, we are still struggling to help people find meaningful, full-time, decent paying jobs. Many workers have given up looking for work and many others have settled for part-time jobs. Average wage growth has been weak because there is still so much slack in the labor market, and this does not bode well for future lifetime earnings for these individuals. According to a recent Pew report, since the start of the recession in 2007, Americans have cut spending by almost 9 percent. Further, the rebound in spending that would normally follow the end of the recession has not occurred, perhaps because they are still pessimistic about future earnings and anticipate reductions in disposable income and wealth. In addition, many families are feeling financial strain. Almost 55 percent of households cannot replace even one month of income through liquid savings, slightly less than half spend an amount that is equal to or more than their income, and another 8 percent report that their debt obligations are 41 percent or more of their gross monthly income. In order to improve opportunity and mobility, we need to address the labor market challenges facing the U.S. economy today through a combination of policies that would encourage early investments in schooling and education, vocational training through apprenticeship programs for youth and wage subsidy programs that match the unemployed to jobs and involve skills training for older workers. Reforming the UI system to encourage entrepreneurship should also be experimented with. Finally, we need to figure out ways to fund maternity leave, perhaps along the lines of the proposal I have discussed in my testimony.

Appendix

Figure 1: Labor Force Participation Rates

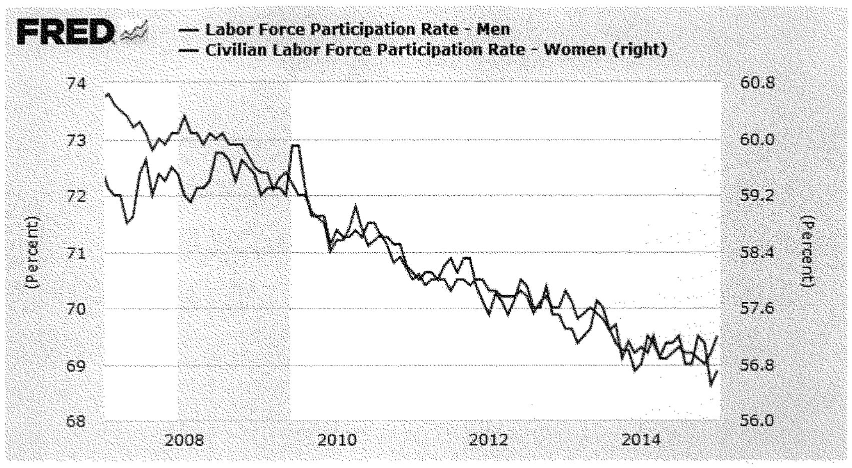
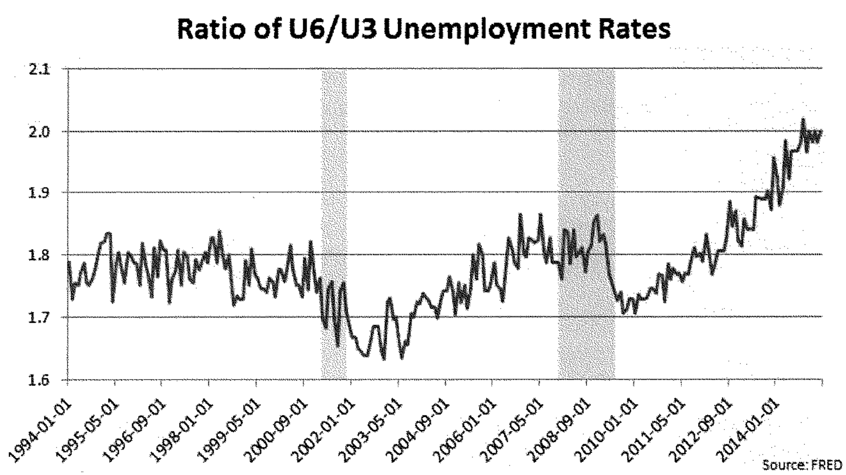



Figure 2: The Slow Decline in Involuntary Part-Time Work



Elisabeth S. Jacobs, Senior Director for Policy and Academic Programs
Washington Center for Equitable Growth

Testifying before the United States Joint Economic Committee on
"What Lower Labor Force Participation Rates Tell Us about Work Opportunities and Incentives"

# The Declining Labor Force Participation Rate: Causes, Consequences, and the Path Forward

July 15, 2015

## Introduction

I would like to thank Chairman Coats, Ranking Member Maloney, and the rest of the Committee for inviting me here today to testify.

My name is Elisabeth Jacobs and I am Senior Director for Policy and Academic Programs at the Washington Center for Equitable Growth. The center is a research and grant-making organization dedicated to understanding what grows our economy, with an emphasis on understanding whether and how economic inequality impacts economic growth and stability.

I am pleased to be here today to address an important topic for understanding the health of the labor market and the economy overall: the labor force participation rate, which currently stands at 62.6 percent. The continued decline of the unemployment rate since 2010 is the most commonly cited piece of evidence that the labor market is recovering. Indeed, it is undeniable that the labor market has improved considerably in the years since the Great Recession, as unemployment has fallen to 5.3 percent, its lowest rate in seven years. Despite this progress, however, the labor market remains troubled. Simply relying on the unemployment rate as an indicator of the health of the job market masks underlying problems, many of which have persisted for decades. In order to fully understand the current state of the labor market, policymakers need to take into account not just the unemployment rate, but also other indicators of how the labor market is functioning, including the labor force participation rate.

My testimony draws five major conclusions:

- The labor market is recovering from the deepest economic downturn since the Great Depression. The private sector has added 12.8 million private-sector jobs over 64 straight months of job growth, the longest streak of private-sector job creation on record. The unemployment rate is down to 5.3 percent, a seven-year low.
- While the labor market is on the mend, looking solely at the falling unemployment rate overstates that recovery. Other indicators of labor market health, including the labor force participation rate, suggest that there is more work to be done.

- The decline in the labor force participation rate predates the Great Recession and is mainly the result of several structural changes in the labor market, including the aging of the workforce.
- Recent declines in the labor force participation rate that are not explained by long-standing structural changes are largely due to persistent business cycle effects. Five years into the labor market's recovery from the most severe recession in recent history, demand remains slack.
- Policy can play an important role in boosting the labor force participation rate, but policymakers need to focus on the correct levers. Persistent slack demand suggests that fiscal and monetary policies are an important first step. In the absence of political action on those fronts, however, family-friendly policies and criminal justice reform are important options.

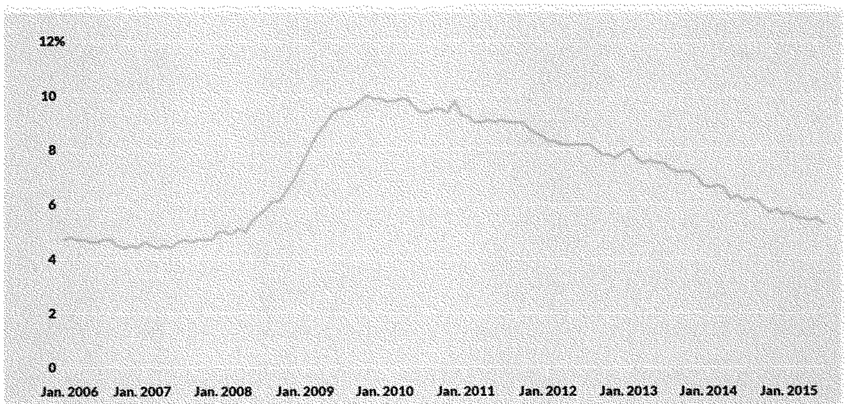
The rest of my testimony will 1) discuss recent trends in the unemployment rate and other measures of the health of the labor market, 2) examine the potential reasons for the long-run decline in the labor force participation rate, and 3) review the research on the trends in the labor force participation rate since the Great Recession. I conclude by suggesting key implications for policy moving forward.

## Trends in the unemployment rate and the health of the labor market

The Great Recession's impact on the labor market was devastating. In December 2007, the month the recession began according to the National Bureau of Economic Research, the unemployment rate was 5 percent. By the end of the recession, in June 2009, the unemployment rate hit 9.5 percent and continued to climb until it peaked at 10 percent in October 2009. Over the past five and a half years, the labor market has made substantial progress back toward where it was before the financial crisis. The economy is in the midst of the longest streak of private-sector job growth on record, with 12.8 million jobs created over 64 straight months. The most notable headline has been the continued downward trajectory in the unemployment rate. Joblessness as defined by the official unemployment rate has been on the decline more than 5 years, and stood at 5.3 percent in June, according to the latest data from the Bureau of Labor Statistics. Indeed, an observer looking solely at the unemployment rate might conclude that the labor market is roughly as healthy as it was prior to the Great Recession. (See Figure 1.)

**Figure 1**

**The Rise and Fall of the Unemployment Rate**




Source: U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey

Washington Center for Equitable Growth

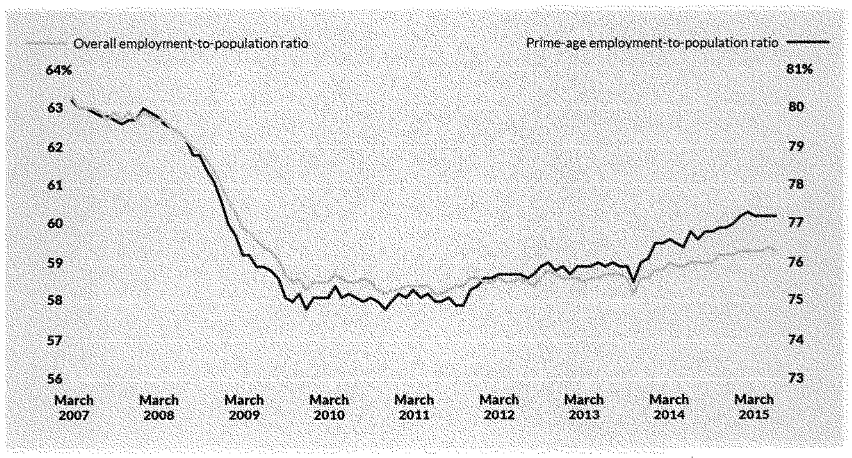
Yet, other measures of the labor market tell a more complicated story. Consider the employment-to-population ratio, which is the share of the total population currently employed. Whereas a *decreasing* unemployment rate is a sign of improvement in the labor market, an *increasing* employment ratio can be an even stronger signal of improvement. Unfortunately, the trend in the employment ratio is less sanguine than trend in the unemployment rate.

The employment ratio plummeted during the Great Recession, unsurprisingly. In December 2007, the employment ratio was 62.7 percent, and it fell to a nadir of 58.2 percent in November 2010. The share of the population currently employed has improved over the course of the recovery, and has been growing for just under four years, reaching 59.3 percent in June. Yet it remains 3.4 percentage points below its level prior to the Great Recession, suggesting continued weakness in the labor market. A second key point to keep in mind is that, like many indicators of underlying labor market health, the downward trajectory of the employment ratio pre-dates the Great Recession. The employment ratio peaked in December 2006, a year before the financial crisis, and was higher still in April 2000, when it hit 64.7 percent.

The prime-age employment ratio, or the share of the total population between the ages of 25 and 54 years old with a job, has followed a similar trajectory. Its pre-recession peak, in December 2007, was 79.7 percent. But the prime-age employment ratio was just 77.2 percent in June, a current gap of 2.5 percentage points. The labor market has made considerable gains in the light of the worst recession since the Great Depression. But looking at these employment-to-population ratios is one indication that reveals how those gains are incomplete. (See Figure 2.)

**Figure 2**

**Recent Trends in Employment-to-Population Ratios**




Source: U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey (Prime-age is ages 25 to 54)

Washington Center for Equitable Growth

Why does the unemployment rate indicate a more complete labor market recovery than does the employment rate? The answer has to do with the intertwined and complicated relationship between the unemployment rate and the labor force participation rate.

The unemployment rate is calculated by the Bureau of Labor Statistics using the Current Population Survey, or CPS, a survey that interviews a sample of households every month and details information about individuals over the age of 16. Individuals who had a job during the week they were interviewed are counted as employed. But not all workers who lack a job are counted as unemployed. According to the CPS, a worker is only officially unemployed if she lacks a job, has actively searched for a job in the last four weeks, and is available to work.[1] Employed workers and officially unemployed workers are together the "labor force." Any worker without a job who is not counted as officially unemployed is considered to be "not in the labor force." The official unemployment rate is then calculated by dividing the number of officially unemployed by the labor force. It is an important measure of labor market health because of the clarity of what's being counted: the unemployment rate is a clear indication of the share of Americans who are actively looking for work. The labor force participation rate is the labor force divided by the total population.

When we think about the unemployment rate declining, we usually think of a situation where an unemployed worker gets a job, moving from unemployment to employment. The ranks of the unemployed would decline, while the size of the labor force would stay the same. The result would be a lower unemployment rate. But the unemployment rate could decline in another way. An unemployed worker could drop out of the labor force, reducing the size of both the number of officially unemployed workers *and* the labor force. This also would also lead to a decline in the unemployment rate.

An example can help clarify this point. Imagine a labor market with 150 potential workers: 95 are employed, 5 are officially unemployed and 50 are not in the labor force. The official unemployment rate would be 5 percent (5 unemployed workers divided by a labor force of 100 workers.) If one of the unemployed workers got a job, then the unemployment rate would decline to 4 percent (4 unemployed workers divided by a labor force of 100 workers). But if instead an unemployed worker retired and left the labor force, then the unemployment rate would decline to 4.04 percent (4 unemployed workers divided by a labor force of 99 workers). In the first case, the labor force participation rate would stay the same at 66.7 percent (100 divided by 150), but in the second case it would drop to 66 percent (99 divided by 150).

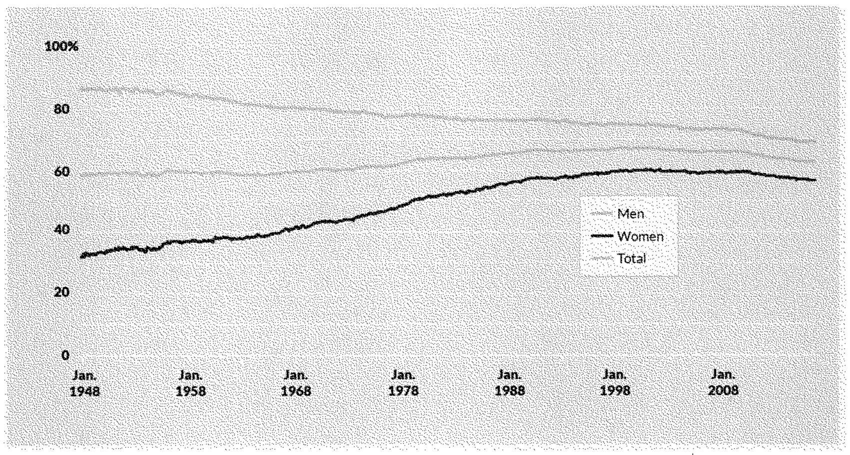
So trends in the unemployment rate are intimately tried to trends in the labor force participation rate. While the decline in the labor force participation rate was particularly stark during the Great Recession, the trend predates it. It's to the long-term term that I now turn.

### The long-run decline in the labor force participation rate

The Bureau of Labor Statistics has been keeping track of the labor force participation rate since January 1948, when the rate was just 58.6 percent. Labor force participation stayed at about this level until 1965 when it began a climb that would last 35 years, until it peaked in April 2000 at 67.3 percent. What caused the steady increase in the rate? Looking at the difference in labor force participation by gender reveals the answer. (See Figure 3.)

**Figure 3**

**Changes in the Labor Force Participation Rate by Gender**




Source: U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey

Washington Center for Equitable Growth

The labor force participation rate for men has been on a downward trajectory for nearly 60 years, almost from the moment the agency started keeping track of the statistic. In January 1948, male labor force participation was 86.7 percent. By April 2000, when overall labor force participation peaked, male labor force participation had fallen to 74.9 percent. For women, the trend has operated in precisely the opposite direction. In April 1948, the participation rate for women was 32 percent. Female labor force participation steadily increased for the next half century, peaking at 60.3 percent in April 2000. Over the second half of the 20th century, women moved into the labor force—and were increasingly likely to stay there, even after becoming mothers.[2] This sea change in women's labor force participation is what helped buoy the overall labor force participation rate, even as men were increasingly less likely to be in the labor force.

Since 2000, however, the growth in women's labor force participation has stalled out. Men's labor force participation has continued to decline. So the question remains: what is responsible for the decline beginning in 2000?

The clearest cause of the decline in the overall labor force participation rate is the aging of the population. The Baby Boom generation, born between 1946 and 1964, is a large cohort of workers whose retirement age coincides with decline in labor force participation that began in 2000. As these workers retired, they left the labor force and in turn pushed down the total labor force participation rate.[3]

At the same time, the participation rate for younger workers (age 16 to 24 years) has been on the decline for decades as well. The downward trend in labor force participation for younger Americans is explained by increased schooling: younger workers are more likely to stay in school longer, as college attendance has become substantially more common.[4] So, a positive development—increased educational attainment—pushed down the labor force participation rate.

Yet the demographic shifts described above cannot explain the entire decline in the labor force participation rate. Prime-age workers' labor force participation has also been on the decline. The rate of participation for workers ages 25 to 54 declined from 84.4 percent in April 2000 to 83.1 percent in December 2007, on the eve of the Great Recession.

Women's labor force participation was driving the overall upward trend in labor force participation through 2000, so the plateau and then decline in women's participation in the ensuring years is an important factor for explaining the national trend. Understanding why women's labor force participation has stalled is key to reversing the downward trends in the national rate. In 1990, the United States had the sixth-highest female labor force participation rate amongst 22 high-income OECD countries. By 2010, its rank had fallen to 17th.[5] Why have other high-income countries continued their climb while the United States has stalled? Research by economists Francine Blau and Lawrence Kahn suggests that the absence of family-friendly policies such as paid parental leave in the United States is responsible for nearly a third of the U.S. decline relative to other OECD economies.[6] As other developed countries have enacted and expanded family-friendly policies, the United States remains the lone developed nation with no paid parental leave.[7]

## Trends in labor force participation since the Great Recession

While labor force participation was declining before the Great Recession, the downward trend accelerated during the economic crisis. The raw data cannot tell us how much of the decline since the end of 2007 is a continuation of the longer-term trends discussed above, and how much of the decline is due to the lingering effects of the Great Recession. Untangling these two trends—the structural and the cyclical—has become an important and highly contested debate amongst economists and other labor market analysts.

Some research on the recent decline argues that a large portion was due to the structural forces in place before the recession, and concludes that not much of the current lower rate is due to weakness in the labor market due to the Great Recession. A 2014 study by economist Stephanie Aaronson and her colleagues finds that the majority of the decline is due to structural forces.[8] According to their calculations, cyclical weakness is responsible for pushing down the labor force participation rate between 0.24 and 1 percentage point in the second quarter of 2014. In June 2014, the participation rate was about 3 percentage points below its pre-recession level, meaning the recession was only responsible for, at most, one-third of the lower rate.

Other research finds a much larger role for the recession, albeit over a different time frame. A 2012 study by economist Heidi Shierholz finds that only one-third of the decline between 2007 and 2011 was due to structural factors and the other two-thirds of the decline was due to the cyclical impact of the Great Recession.[9]

An analysis from White House Council of Economic Advisers finds a result somewhere in the middle of these two estimates. The CEA, using conservative estimation techniques, concludes that about half of the decline from 2007 to the middle of 2014 is due to the aging of the population, one-sixth is part of a cyclical decline consistent with what we would expect given previous recessions, and the final third is a combination of other structural trends from before the recession and "consequences of the unique severity of the Great Recession."[10]

So, while there is room for the rate to move upward as the economy strengthens, long-term forces will continue to exert downward pressure on labor force participation. So far in 2015, the labor force participation rate has been holding fairly steady, moving sideways instead of downward. While the June report saw a 0.3 percentage point decline in the participation rate, we should be cautious about drawing conclusions from this dip. The monthly CPS data are noisy, meaning that several months' of consistent movement are necessary before concluding that a trend is in place. Drawing conclusions from last month's numbers is particularly risky, due to an anomaly in the timing of survey data collected by the Bureau of Labor Statistics for the June report.[11]

## Policy implications moving forward

What are the implications for future policy? If policy makers want to raise the labor force participation rate, or at least keep it as high as possible, a variety of options belong on the table.

Fiscal and monetary policy that focuses on strengthening economic growth and prioritizing full employment can help boost the labor force participation rate. A new study from economist Jesse Rothstein finds lackluster employment growth across nearly all industries between 2009 and 2014, reflecting a continued shortage of demand for all workers.[12] Stronger economic growth can help pull more workers into the labor force if they see higher wages being offered by employers. Doing so requires more stimulus through fiscal policy, such as increased infrastructure investment. According to the International Monetary Fund, boosting infrastructure spending can accelerate economic growth by 1.5 percent in the short-term. This increased growth would help create jobs and pull discouraged workers back into the labor force, as well as improving the health of the economy in the longer-term.[13] More accommodative monetary policy also has immense potential to stimulate labor demand. Fiscal and monetary policies are immensely important, but smart microeconomic policies could help as well.

First, the absence of family-friendly policies in the United States is a key reason for the decline in the overall labor force participation rate and the stalling out of women's labor force participation. The Mad Men Era is over, to the great relief of many women. But public policy has not kept up with the needs of working families, and balancing the competing demands of work and home remains a fundamental challenge for millions of households. Recent research suggests that the failure to adapt our policies to meet the demands of the modern American family means that women's labor force participation has stagnated.[14] Paid family leave, flexible scheduling, affordable high-quality childcare, and universal pre-kindergarten are all policies that could play a major role in jump-starting the engine of women's labor force participation. By providing policies that recognize individuals' dual roles as both workers and caregivers, we have the opportunity to attract and retain talent in the labor force.

The potential impact of paid family leave on the labor force participation rate is worth discussing in a bit more detail because of the demographic trends discussed earlier. Research suggests that paid parental leave can substantially improve mothers' labor force participation, because it encourages them to return to their job following a period of bonding with a new baby.[15] But caregiving extends beyond children, as anyone who has provided care for an aging relative well knows. The share of prime-age workers with eldercare responsibilities is increasing as the Baby Boom cohort ages. Unpaid family caregiving is the most common form of eldercare for people of advanced age.[16] Nearly half of all individuals who provide eldercare are part of the "Sandwich Generation," simultaneously responsible for both aging parents and young children.[17] Paid family leave that allows workers to take temporary time off to care for a loved one—whether that loved one is a new child or an aging parent—is a potentially powerful tool for bolstering labor force participation.

A second proactive policy option to improve labor force participation is a criminal justice reform agenda that includes a reduction in the incarceration rate and policies to reduce discriminatory employment practices against those with criminal records. The U.S. incarceration rate is currently the highest in the world, a consequence of three decades of dramatic growth in the prison population.[18] While the crime rate has fallen over the same period that the prison population has grown exponentially, research shows that the efficacy of increased incarceration as a crime control technique is virtually non-existent; crime rates rise and fall independent of incarceration rates since the 1990s.[19] Coupled with the rise in incarceration, nearly one in three adults in 2010 had a serious misdemeanor or felony arrest that can show up on a routine background check for employment, and a substantial share of discouraged workers report a felony conviction.[20] Nine in ten large corporations report that they conduct criminal background checks, and a wide range of research suggests that a criminal record (both felony and misdemeanor charges, regardless of age) plays a significant negative role in an individual's employment prospects.[21] New research by economist Michael Mueller-Smith shows that overly aggressive criminal justice policies can significantly reduce the labor force participation of individuals once they leave prison or jail.[22]

Taken together, the impact of our nation's current criminal justice policies suggest that reform could play a significant role in improving labor force participation. In the long run, reducing flows into the prison population could help boost the labor force participation rate. In the short-term, "ban the box" policies that remove the criminal history question from job applications and postpone the criminal background check until later in the hiring process could help pull some discouraged workers back into the labor force.

It is important to avoid being distracted by policies that have little to do with the trends in the labor force participation rate. Social Security Disability Insurance, or SSDI, for example, has been cited as a program that reduces the participation rate by discouraging work.[23] Proponents of this hypothesis argue that more relaxed medical screening for disability and an increase in the program's income-replacement rate have increased the disability rolls and pulled able-bodied workers out of the labor market. But studies suggest that the increase in the number of Americans receiving SSDI may be a simple matter of demographics. For instance, economist Monique Morrisey uses the demographic-adjusted disability incidence rate, which shows that after controlling for the aging of the population the rate for men has been on the decline for the last 20 years. At the same time, the age-adjusted rate for women has increased, but to a level similar to the age-adjusted rate for men.[24] This analysis indicates that disability has not become more prevalent, but rather that the aging of the workforce has been the primary cause of the increase in SSDI receipt. Of course, policymakers may have other reasons for wanting to reform the disability insurance program, but we should not expect changes in SSDI to provide a major boost to the labor force participation rate.

Similarly, the Affordable Care Act has been cited as a program that could reduce the labor force participation rate and depress overall labor supply. To a certain extent, this is true. The Congressional Budget Office's model predicts that workers will supply less labor once the five-year-old health care law is fully implemented in 2016.[25] Note, however, that this reduction in labor supply is due to choices by the workers, not because of a reduction in employers' demand for labor. Some of this decline in labor supply will come as a reduction in the hours worked by some workers, rather than a decline in the number of workers employed. In other words, the program may lead to an increase in voluntary part-time work. Data from the past several years shows just that trend: an increase in workers voluntarily working part-time.[26] While the ACA may have impacts on labor supply, those effects generally reflect a positive outcome for workers.

## Conclusion

Untangling the causes of causes of labor market trends is a tricky endeavor, particularly given the intersection of a long-run trend with the cataclysmic recession of 2007-2009. The drop in the labor market participation rate means that the unemployment rate overstates the extent of the labor market recovery. While the decline in labor force participation was underway decades before the Great Recession began, the downturn played a significant role in the accelerating the recent decline. Demographic forces, namely the aging of the population, are putting significant downward pressure on the labor force participation rate. While the primacy of demographics means limits the extent to which policies can impact increase labor force participation, this structural challenge does not mean that policy has no role to play. The trick for policymakers is to be strategic, and to pull the levers with the most potential to jump-start the labor market back into high gear.

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# Joint Economic Committee Hearing on

# "What Lower Labor Force Participation Rates Tell Us about Work Opportunities and Incentives"

## Questions for the Record for Dr. Winship
## Congressman Don Beyer

**July 21, 2015**

1. In your written testimony, you stated: "Furthermore, our misinterpretation of the data, more often than not, translates into an exaggeration of the economic challenges we face."

   Some stories in the news media have stated that nearly one-in-four people in their prime working years aren't working.[1] This claim is used to argue that there are "[...] deep, profound, and pervasive [...]" problems afflicting the economy. It sounds alarming—because it implies that the real unemployment rate for prime-age workers is nearly 25 percent.

   While it is true that the share of the civilian noninstitutional population between the ages of 25 and 54 that does not have jobs is 22.8 percent,[2] I'm concerned that this narrow fact is used to mislead people about the state of the economy.

   - Would this share include stay-at-home moms or dads or those who take time out of the labor force to care for aging parents? What about those who are pursuing advanced degrees such as a Ph.D. in economics, for example—could they be counted as prime-age workers without jobs? How about the disabled?
   - Please discuss how this share has evolved over time. What is the lowest the share of prime-age workers without jobs has ever been? When was that?
   - Would you say that the sort of news stories described above, which have appeared in *The Weekly Standard* and *The Daily Caller*, represent "[...] an exaggeration of the economic challenges we face?"

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July 24, 2015

Congressman Beyer,

Thank you for your follow-up inquiries related to the recent Joint Economic Committee hearing on labor force participation. I am pleased to respond to your questions.

You asked, regarding the share of 25- to 54-year-olds who are not working, "Would this share include stay-at-home moms or dads or those who take time out of the labor force to care for aging parents? What about those who are pursuing advanced degrees such as a Ph.D. in economics, for example—could they be counted as prime-age workers without jobs? How about the disabled?"

The share of prime-working-age Americans without jobs would include all of these groups—adults caring for children or parents, those enrolled in school, and the disabled—to the extent that they are not working. Of course, some students—even Ph.D. students—are employed, as are some disabled adults.

You asked, "Please discuss how this share has evolved over time. What is the lowest the share of prime-age workers without jobs has ever been? When was that?"

Because of the increase in female labor force participation over the past 65 years, the share of prime-working-age adults without a job declined steadily, until recently. The low point was in 2000, when 18.5 percent of civilian noninstitutionalized adults were either unemployed or out of the labor force. That was down from 34.5 in 1962. By 2011, the figure had increased to 25.5 percent, but it is now declining again. In 2014, it was 24 percent.

Among men in this age group, the low point for the share without a job was 1969, when 5.5 percent were unemployed or out of the labor force. That was down from 8 percent in 1962. It then began an upward march, reaching 16 percent in 1983. After stabilizing during the 1980s and 1990s, the share began increasing again after 2000. By 2010 it was 20.5 percent. Since then, it has fallen to 18 percent.

Among women between the ages of 25 and 54, the share not working fell steadily from 59 percent in 1962 to a low of 25 percent in 2000. By 2011 it had risen back to 31 percent, and it was 30 percent last year.

You asked, "Would you say that the sort of news stories described above, which have appeared in The Weekly Standard and The Daily Caller, represent '[...] an exaggeration of the economic challenges we face?'"

I would agree with that statement. To illustrate, using data from the 2014 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS), I find that in early 2014 roughly 24 percent of 25- to 54-year-olds were not working. If those out of the labor force but in school are excluded, then the figure falls to 22 percent. If we also exclude those out of the labor force and not reporting a disability who tell surveyors they do not want a job, the figure drops to 12 percent. And clearly many disabled adults should not be expected to work, so the percentage of non-working prime-working-age adults about whom we should be concerned is almost certainly under 10 percent. That number is too high, but it is quite a bit below 24 percent.

Please do not hesitate to reach out if I can answer any other questions you may have.

Sincerely,

Scott Winship

Walter B. Wriston Fellow

Manhattan Institute for Policy Research

# Joint Economic Committee Hearing on

# "What Lower Labor Force Participation Rates Tell Us about Work Opportunities and Incentives"

## Questions for the Record for Dr. Winship
## Congresswoman Carolyn B. Maloney, Ranking Member

**July 21, 2015**

1. In your written testimony, you stated: "Furthermore, our misinterpretation of the data, more often than not, translates into an exaggeration of the economic challenges we face."

   At the hearing, I asked you to assess a statement by Senator Ted Cruz that read:

   > *"I think we're facing enormous challenges in this country. The Obama economy has led to the lowest labor force participation since 1978."* [1]

   After affirming that "a lot" of the recent decline in labor force participation is due to demographics, and that the effect of increased schooling on labor force participation is "significant," you stated with regard to the "Obama economy" that you "do not think it is fair to say that it was the most important factor, by any means" contributing to the recent decline in participation.

   Because of time limits at the hearing, we were not able to fully explore some related issues I had planned to raise. In the next line of his statement about "enormous challenges," Sen. Cruz continued:

   > *"92 million Americans aren't working."*

   Senator Cruz's office later explained to PolitiFact that he was referring to the total civilian noninstitutional population not in the labor force – no further clarification was offered.

   According to the most recent data from the Bureau of Labor Statistics, this figure is now about 93.6 million.[2]

   - Please provide a demographic breakdown of these 93.6 million people not in the labor force. Approximately what percentage of them are age 65 or older? About what share of them are in high school, college or graduate school? About what share are disabled? Is there any way to calculate what percentage of these people are stay-at-home mothers or fathers?

   While it is true that about 6.6 million of the individuals out of the labor force report that they want a job, and the 93.6 million figure does not include the roughly 8.3 million people who are officially counted as unemployed, I am concerned that Sen. Cruz's reference to more than 90 million people who "aren't working" overstates the size of the challenges in the labor market.

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[1] Louis Jacobson, "Ted Cruz says 92 million Americans aren't working," *PolitiFact.com* (February 10, 2015), http://www.politifact.com/truth-o-meter/statements/2015/feb/10/ted-cruz/ted-cruz-says-92-million-americans-arent-working/.

[2] Bureau of Labor Statistics, Table A-1, Employment status of the civilian population by sex and age, Total not in labor force, seasonally adjusted, http://www.bls.gov/news.release/empsit.t01.htm.

## Joint Economic Committee Hearing on

## "What Lower Labor Force Participation Rates Tell Us about Work Opportunities and Incentives"

### Questions for the Record for Dr. Winship
### Congresswoman Carolyn B. Maloney, Ranking Member

**July 21, 2015**

- Given that a large percentage of the civilian noninstitutional population not in the labor force is made up of likely retirees, students, the disabled, or stay-at-home parents, do you agree with Sen. Cruz that the 92 million figure (now 93.6 million) is evidence of the "[...] enormous challenges [...]"? Or would this, in the words you stated in your testimony, be an example of "[...] misrepresentation of the data [or] an exaggeration of the economic challenges we face?"
- As an economist, would you be comfortable making a statement along the lines of the one Sen. Cruz made as a way of explaining the state of the economy?

July 24, 2015

Ranking Member Maloney,

Thank you for your follow-up inquiries related to the recent Joint Economic Committee hearing on labor force participation. I am pleased to respond to your questions.

You asked me to provide a demographic breakdown of the 93.6 million people not in the labor force as of June 2015. I am able to give you the breakdown you requested using the 2014 Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC) microdata. The estimates primarily reflect conditions in March of 2014, though some households were surveyed in November 2013, February 2014, and April 2014. There is no reason to think that the percentages I report would be significantly different for June 2015, except that fewer people would be enrolled in school during the summer.

While 92.4 million noninstitutionalized civilians over the age of 15 were out of the labor force in June 2015 (93.6 million after applying seasonal adjustment), my analyses indicate that in the 2014 ASEC, 91.8 million were. In the 2014 ASEC, 39 percent of noninstitutionalized civilians over the age of 15 and not in the labor force were 65 years old or older. Another 18 percent were younger than 65 and enrolled in school. An additional 13 percent were under age 65, not enrolled in school, and reported being out of the labor force due to a disability or health problem. Finally, 6 percent were under 65, not enrolled in school, not disabled, and had at least one child under the age of 6.

Summing these groups indicates that of all noninstitutionalized civilians over the age of 15 and not in the labor force, 76 percent either were elderly, were in school, reported being disabled, or had a child under the age of 6.

You asked, "Given that a large percentage of the civilian noninstitutional population not in the labor force is made up of likely retirees, students, the disabled, or stay-at-home parents, do you agree with Sen. Cruz that the 92 million figure (now 93.6 million) is evidence of the "[...] enormous challenges [...]"? Or would this, in the words you stated in your testimony, be an example of "[...] misrepresentation of the data [or] an exaggeration of the economic challenges we face?"

I believe that the figure cited by Senator Cruz is weak evidence of "enormous challenges" and does overstate the magnitude of our economic problems. No one expects that the elderly should work (and few want to), and we should also not worry about the 15 to 20 million students who are not in the labor force (particularly those still in high school).

I do think that we should be concerned about the high and rising fraction of nonelderly adults receiving disability benefits, as evidence suggests that, for instance, half the rise in SSDI benefits since the 1980s is related to policy changes that have made it easier to become a beneficiary. (See my "How to Fix Disability Insurance" in the Spring, 2015 issue of *National Affairs*, or the evidence cited in my written testimony.)

Also, as you note, Senator Cruz's estimate excluded the unemployed, many of whom have had difficulty finding work for some time. Some—though not all—unemployment should concern us as well.

You asked, "As an economist, would you be comfortable making a statement along the lines of the one Sen. Cruz made as a way of explaining the state of the economy?"

I would not be comfortable making such a statement. Simply excluding the elderly and students would drop the figure to around 40 million, based on my analyses. Exclude adults who report no disability and say they do not want to work and the estimate falls to less than 16 million. Of this remainder, 12 million report being disabled, and many of them have significant health problems and should not be expected to work.

The bottom line is that only 6 to 16 million Americans are out of the labor force and would prefer to work. Add the 8.6 million unemployed Americans to that total and 15 to 24 million Americans "aren't working" and would like to—with the true figure much closer to 15 million. That figure is higher than we should accept, but it is much lower than 92 million.

Please do not hesitate to reach out if I can answer any other questions you may have.

Sincerely,

Scott Winship

Walter B. Wriston Fellow

Manhattan Institute for Policy Research

# Joint Economic Committee Hearing on
# "What Lower Labor Force Participation Rates Tell Us about Work Opportunities and Incentives"

## Questions for the Record for Dr. Mathur
## Congresswoman Carolyn B. Maloney, Ranking Member

**July 21, 2015**

1. The title of the hearing suggests that lower labor force participation rates reflect both a lack of work opportunities and a lack of work incentives. During the hearing, you argued that the Affordable Care Act and other social safety net programs "[...] create work disincentives." You mentioned that "as economists, [...], we believe that these incentives matter at the margin."
   - Taking into account the numerous other causes of the recent decline in labor force participation—including the aging population, increasing school enrollment among young people and the effects of the Great Recession on job opportunities—what share of the decline in the overall labor force participation rate would you say is because of disincentives to work at the margin? If possible, please try to quantify this share.
   - Would you say that the effects of demographics on the decline in the labor force participation rate are larger or smaller than the effects of work disincentives?
   - What about the effects of increased schooling? Would you say those effects are larger or smaller than the effects of work disincentives?
   - How about the impact of the Great Recession on job opportunities? Do you think labor force participation declined more because of the difficulty people had finding jobs or because government programs created incentives not to work?

*Response:*

Let me take all the questions together since they are related. There is a continuing long-term decline in labor force participation that can be explained by structural and demographic factors such as the aging of the baby boomers or declines in educational attainment. As per a recent paper by economists at the Federal Reserve Bank of Chicago, just under half of the decline in labor force participation between 2000 and 2011 was caused by these demographic shifts. This is also the finding of a recent CBO report that finds that half of the decline in participation can be explained by these long term demographic trends, and the rest due to the weakness in the economy (http://www.cbo.gov/sites/default/files/45011-LaborMarketReview.pdf). Another paper by economists at the Philadelphia Fed finds that between 2007 and 2012, nearly 30 percent of the decline in participation can be explained by the increase in discouraged workers i.e workers who would like a job, but did not search because they were too discouraged to look.

However, that still leaves a significant share that is cyclical and that we can hope to reverse as the economy improves. It is this part of the labor force participation trend that is affected by tax policy and changing benefits. In its report, the Congressional Budget Office for instance (http://www.cbo.gov/sites/default/files/45011-LaborMarketReview.pdf) , cited Casey Mulligan's

# Joint Economic Committee Hearing on
# "What Lower Labor Force Participation Rates Tell Us about Work Opportunities and Incentives"

## Questions for the Record for Dr. Mathur
## Congresswoman Carolyn B. Maloney, Ranking Member

**July 21, 2015**

work which showed that because of the availability of health insurance subsidies under the Affordable Care Act, fewer people will participate in the labor market. In my testimony, I cite research to show that the extension of emergency unemployment benefits increased the unemployment rate and duration over the recession. Estimates show that a one week increase in potential benefit duration is associated with increases in the average duration of unemployment spells. However, the longer these workers are out of the labor market, the lower their chances of finding employment. Hence this may also have contributed to a drop in labor force participation. Also, the increase in occupational licensing requirements and the lack of conformity in regulations across states has also hindered opportunities for workers. Finally, the CBO report shows that with the decline in opportunities in the labor market, more people reverted to disability benefits and that caused these people to drop out of the labor market permanently. While it is hard to quantify the overall effect of government policies on the labor market participation rates, there is a significant amount of research that I cite in my longer written testimony that shows that these incentives and effects are present. Also, what worries me even when we talk about the role of demographics in LFP, is that many young people may be making decisions to stay in school not because that would be their preferred choice, but because job opportunities do not exist for them. Attributing all of this to demographics may be correct to some extent but may also crowd out other explanations. Similarly, many older workers who lost their full-time jobs may decide to retire early for lack of finding a job, but that is not really a choice. Also certain government policies if adopted could have helped improve LFP, such as EITC expansions, which we all agree are important, but that have not yet been passed. At the same time, the focus on minimum wage hikes and new overtime rules has the potential to further shift people into either unemployment or reduced work hours, which is not the direction we would like the economy to proceed.

2. During the hearing, you were asked about the Earned Income Tax Credit (EITC). It was suggested that the EITC creates a disincentive to work full time and that some employees deliberately work less in order to make less money and preserve their eligibility for the EITC and other public safety net programs.

   In the hearing, you said that "[...] all of the evidence that we have suggests that the EITC is actually encouraging labor force participation and has actually gotten people into the labor market," adding that "[...] there is actually no good research that finds that disincentive effect to actually show up in the data."

   - Could you please elaborate on what the economic literature and hard data show about the effect of the EITC on labor force participation?

# Joint Economic Committee Hearing on

# "What Lower Labor Force Participation Rates Tell Us about Work Opportunities and Incentives"

## Questions for the Record for Dr. Mathur
## Congresswoman Carolyn B. Maloney, Ranking Member

**July 21, 2015**

- Are there other programs that, according to economic theory, create disincentives to work at the margin, but that have not been empirically proven to have such an effect?

*Response*

In my testimony, I cite work by Eissa and Liebman (1996) that shows that the EITC has significantly expanded labor force participation for low income workers, particularly low-educated single mothers. By construction, the phase-out range of the EITC reduces the return to working by reducing the size of the wage subsidy. Economists anticipate that this would create a disincentive to work, and while there is some limited evidence to show that it does affect hours worked by secondary earners, the overwhelming evidence is that there is no such effect.

I am not aware of other programs where we expect this effect but it doesn't happen. The EITC is the largest program that actively encourages work, and therefore has been extensively studied. What we do know is that other welfare programs such as the Food Stamp Program, AFDC and TANF have typically reduced hours worked by recipients. ( http://www.sesp.northwestern.edu/docs/publications/441059376551ec428c2efd.pdf)

# Joint Economic Committee Hearing on

# "What Lower Labor Force Participation Rates Tell Us about Work Opportunities and Incentives"

## Questions for the Record for Dr. Jacobs
## Congresswoman Carolyn B. Maloney, Ranking Member

**July 21, 2015**

1. One common Republican line of argument is that government programs create disincentives to work. With the title of this recent hearing, the implication is clear: Republicans think one reason labor force participation is low is because there are not enough incentives for people to work. For example, at the hearing, one witness, Dr. Winship, argued that "[he doesn't] think that much of the expansion of the safety net [...] involved work requirements, unfortunately."
   - Did safety net expansions put in place in the early years of the Obama administration have work requirements? Have those requirements changed as the recovery has accelerated over the past couple years?
   - Do you think that disincentives to work stemming from tax policy and safety net programs will have a meaningful impact on the labor force participation rate in coming years?

2. Labor force participation rates for men and women generally moved in opposite directions during the second half of the 20th century. Women entered the labor force at much higher rates, while men's labor force participation has slowly but steadily trended downward since the 1950s. Recently, however, women's labor force participation has begun to slip as well.
   - What factors are holding back women's labor force participation?
   - What types of policies could boost labor force participation for women?
   - Can you point to any economic evidence showing that these policies would be effective?

## Responses to Questions for the Record from Joint Economic Committee Hearing on "What Lower Labor Force Participation Rates Tell Us About Work Opportunities and Incentives"

Dr. Elisabeth Jacobs, Senior Director for Policy and Academic Programs
Washington Center for Equitable Growth

From Congresswoman Carolyn B. Maloney, Ranking Member

**One common Republican line of argument is that government programs create disincentives to work. With the title of this recent hearing, the implication is clear: Republicans think one reason labor force participation is low is because there are not enough incentives for people to work. For example, at the hearing, one witness, Dr. Winship, argued that "[he doesn't] think that much of the expansion of the safety net [...] involved work requirements, unfortunately." Did safety net expansions put in place in the early years of the Obama administration have work requirements? Have those requirements changed as the recovery has accelerated over the past couple years? Do you think that disincentives to work stemming from tax policy and safety net programs will have a meaningful impact on the labor force participation rate in coming years?**

The economic crisis that preceded the Obama Administration resulted in the worst economic downturn since the Great Depression, and the federal government responded with an expansion to the safety net designed not only to cushion the devastating blow for millions of American families, but also to jumpstart the nation's economy. While some of these expansions included a work requirement, others did not. The expansion of policies that did not include work requirements was entirely appropriate, given the record-high rates of joblessness that characterized the labor market for the long and deep recession. Indeed, across-the-board work requirements in the context of an extremely weak labor market likely would have resulted in a massive policy failure, as few would have been able to take advantage of the support and the economy would have continued to free-fall. In nearly all cases, the safety net expansions that did not include work requirements have been phased out as the labor market recovery has picked up pace.

Some elements of the safety net expansions during the recession included a de facto work requirement. For instance, expansions to the Earned Income Tax Credit (EITC) via the 2009 American Recovery and Reinvestment Act (ARRA) were available only to working individuals. The EITC is a refundable credit intended to help people who work but earn modest incomes. ARRA provided an increase in the EITC for taxpayers with three or more qualifying children, and increased the phase-out point of the credit for all married couples. Congress has extended this safety net expansion through December 2017.[1] Expanded EITC access beyond the recession period makes good sense, because the policy is so effective at both reducing poverty and incentivizing work. Myriad studies have shown that the EITC is one of our nation's most effective poverty-prevention policies.[2] Moreover, research also demonstrates that the EITC incentivizes labor force participation. A recently released study estimates that a $1000 increase in the EITC leads to a 7.3

[1] Internal Revenue Service. Updated May 31, 2013. "ARRA and the Earned Income Tax Credit." http://www.irs.gov/uac/ARRA-and-the-Earned-Income-Tax-Credit
[2] Fox, Liana, et. al. 2013. "Waging War on Poverty: Historical Trends in Poverty Using the Supplemental Poverty Measure." NBER Working Paper 19789. Cambridge, MA: National Bureau of Economic Research. https://www.nber.org/papers/w19789.pdf

percentage point increase in employment, and a 9.4 percent reduction in the share of families with post-tax, post-transfer incomes below 100 percent of the poverty line.[3]

Other safety net expansions put in place in the midst of the economic crisis did not include work requirements, which was entirely appropriate given the nature of the labor market at the time. The economy shed an average of 385,000 jobs per month from December 2007 to June 2009, and the unemployment rate skyrocketed, hitting a peak of 10 percent in October 2009. The number of unemployed workers far outstripped the number of job openings. In June 2009, there were 6.8 unemployed workers for every job opening in the United States. That ratio didn't fall below 3 workers per job opening until February 2013. In a labor market with very few jobs, requiring recipients of safety net programs to work in exchange for benefits would be no safety net at all. To put it very plainly: The financial crisis that precipitated the Great Recession put the labor market into a free fall. A devastated labor market meant that very few jobs were available. As a result, many of the expansions to the safety net did not include work requirements, because they were designed to provide a basic floor for the millions of American families hard hit by that labor market crisis. Examples of these safety net programs include the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps) and extensions to the unemployment insurance program (which, by design, is for jobless workers and thus does not include a work requirement).[4]

The expansion of safety net programs during the recession comprised a set of policy choices designed not only to support the individual American families most in need of support, but also to have the most bang-for-the-buck in terms of the potential to jumpstart the national macro-economy. Economically-vulnerable individuals are the most likely to spend each additional dollar in their pockets, as is well documented by economic research on the marginal propensity to consume.[5] This is effective macroeconomic policy decision-making at its best – safety net expansions that both cushion the blow for the most vulnerable American families while simultaneously improving economic performance for the nation as a whole. Including work requirements for these safety net expansions would likely have not only dampened their efficacy as poverty-prevention measures (because, in the absence of available jobs, many would not have been able to access the safety net programs) but would also have undermined their efficacy as fiscal policy tools for getting the economy back on the path toward recovery.

Empirical analyses provide overwhelming evidence suggesting that these safety net expansions were highly effective in both preventing poverty and speeding the pace of the recovery. For instance, an analysis by the Center on Budget and Policy Priorities find that six key ARRA provisions – three new or expanded tax credits, two expansions of unemployment insurance, and the extension to the SNAP program – kept 6.9 million Americans out of poverty in 2010.[6] The non-

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[3] Hoynes, Hilary W. and Ankur J. Patel. 2015. "Effective Policy for Reducing Inequality? The Earned Income Tax Credit and the Distribution of Income." NBER Working Paper No. 21340. Cambridge, MA: National Bureau of Economic Research.
https://www.nber.org/papers/w21340

[4] SNAP does have a work requirement for able-bodied adults without dependents, which was waived by most states during the recession due to high rates of unemployment. Most of these waivers are set to expire in 2015. See USDA. 2015. "Supplemental Nutrition Assistance Program – Expiration of Statewide ABAWD Time Limit Waivers." http://www.fns.usda.gov/sites/default/files/snap/SNAP-Expiration-of-Statewide-ABAWD-Time-Limit-Waivers.pdf.

[5] Johnson, David et. al. 2006. "Household Expenditures and the Income Tax Rebates of 2001." *American Economic Review* 96(5): 1589-1610; Jappelli, Tullio and Luigi Pistaferri. 2010. "The Consumption Response to Income Changes." *The Annual Review of Economics*. 2: 479-506; Kaplan, Greg and Giovanni L. Violante. 2014. "A Model of the Consumption Response to Fiscal Stimulus Payments." *Econometrica* 82(4): 1199-1239.

[6] Sherman, Arloc. 2011. "Poverty and Financial Distress Would Have Been Substantially Worse in 2010 Without Government Action, New Census Data Show." Washington, DC: Center on Budget and Policy Priorities.
http://www.cbpp.org/sites/default/files/atoms/files/11-7-11pov.pdf

partisan Congressional Budget Office finds that ARRA boosted real gross domestic product significantly (between 0.7 and 4.1 percent in 2010, and between 0.4 and 2.3 percent in 2011).[7]

With the exception of the aforementioned EITC, the majority of the expansions to the safety net that occurred as a response to the Great Recession have expired and are no longer available to the American people. For instance, the Making Work Pay Tax credit, which provided a refundable tax credit for wage earners (and thus by design included a work requirement), expired at the end of 2010.[8] Expanded SNAP benefits have also been terminated.[9] Extensions to the unemployment insurance program expired at the end of 2013.[10] In other words, as the labor market recovery has solidified, the safety net has contracted.

The expiration of many of the safety net expansions included in the response to the economic crisis mean that there is no reason to expect those policies to impact labor force participation. Indeed, the Congressional Budget Office estimates that "the employment effects [of ARRA] began to wane at the end of 2010 and continued to do so through 2014."[11] Whether or not pre-existing tax and safety net policies have a meaningful impact on labor force participation is a separate question. We have good evidence to suggest that most current government policies play a minimal role in disincentivizing labor force participation. For instance, the disability insurance program is not a major culprit in the falling labor force participation rate.[12] The EITC serves as a significant work *incentive*, and further expansions to the EITC have the potential to increase labor force participation.[13] No evidence exists to support the argument that the Affordable Care Act (ACA) is holding down labor force participation by reducing employer demand for labor; the only employment effects of the ACA to date imply that the policy has facilitated more efficient matching between workers' skills and preferences and available jobs.[14]

Moreover, the best available evidence suggests that the *absence* of certain types of social policies in the United States may be depressing the labor force participation rate. A good example is the absence of family-friendly policies in the United States. Women's labor force participation was driving the overall upward trend in labor force participation through 2000, so the plateau and then decline in women's participation in the ensuing years is an important factor for explaining the downward national trend over the last decade and half. Understanding why women's labor force

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[7] Congressional Budget Office. February 2015. "Estimate Impact of the American Recovery and Reinvestment Act on Employment and Economic Output in 2014."
https://www.cbo.gov/sites/default/files/cbofiles/attachments/49958-ARRA.pdf

[8] Internal Revenue Service. Updated March 25, 2015. "The Making Work Pay Tax Credit."
http://www.irs.gov/uac/The-Making-Work-Pay-Tax-Credit

[9] United States Department of Agriculture Economic Research Service. March 2015. "Supplemental Nutrition Assistance Program (SNAP): ARRA."
http://www.ers.usda.gov/topics/food-nutrition-assistance/supplemental-nutrition-assistance-program-(snap)/arra.aspx

[10] United States Department of Labor Employment and Training Administration. 2015. "Emergency Unemployment Compensation (EUC) Expired on January 1, 2014."
http://www.workforcesecurity.doleta.gov/unemploy/supp_act.asp.

[11] Congressional Budget Office. Ibid.

[12] Morrisey, Monique. June 2015. "Are Disability Rates Increasing?" Washington, DC: Economic Policy Institute.
http://www.epi.org/blog/are-disability-rates-increasing/

[13] Meyer, Bruce D. 2010. "The Effects of the Earned Income Tax Credit and Recent Reforms." In *Tax Policy and Economy, Volume 24*. Ed. Jeffrey Brown. Chicago: University of Chicago Press.
https://www.nber.org/chapters/c11973.pdf

[14] Mathur, Aparna, et. al. 2015. "Has the Affordable Care Act increased part-time employment?" *Applied Economics Letters*. http://www.aei.org/publication/has-the-affordable-care-act-increased-part-time-employment/. Buffie, Nicholas. July 2015. "The ACA and Part-Time Work." Washington, DC: Center for Employment and Policy Research.
http://www.cepr.net/blogs/cepr-blog/the-aca-and-part-time-work

participation has stalled is key to reversing the downward trends in the national rate. In 1990, the United States had the sixth-highest female labor force participation rate amongst 22 high-income OECD countries. By 2010, its rank had fallen to 17th.[15] Why have other high-income countries continued their climb while the United States has stalled? Research by economists Francine Blau and Lawrence Kahn suggests that the absence of family-friendly policies such as paid parental leave in the United States is responsible for nearly a third of the U.S. decline relative to other OECD economies.[16] As other developed countries have enacted and expanded family-friendly policies, the United States remains the lone developed nation with no paid parental leave.[17] Paid leave and other family-friendly policies have the potential to remove work disincentives for those responsible for providing essential care to their families - a growing share of the population that includes not only the parents of young children, but also adults responsible for providing elder care for their own aging parents.[18]

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[15] Blau, Francine D. and Lawrence M. Kahn. 2013. "Female Labor Supply: Why Is the US Falling Behind?" Bonn, Germany: Institute for the Study of Labor.
http://ftp.iza.org/dp7140.pdf

[16] Blau and Kahn. Ibid.

[17] International Labour Office. 2014."Maternity and Paternity at Work: Law and Practice Around the World." Geneva: International Labour Organization.
http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_242615.pdf

[18] Bureau of Labor Statistics. 2013. "Unpaid Eldercare in the United States, 2011-2012: Data from the American Time Use Survey."
http://www.bls.gov/news.release/pdf/elcare.pdf

From Congresswoman Carolyn B. Maloney, Ranking Member

**Labor force participation rates for men and women generally moved in opposite directions during the second half of the 20th century. Women entered the labor force at much higher rates, while men's labor force participation has slowly but steadily trended downward since the 1950s. Recently, however, women's labor force participation has begun to slip as well. What factors are holding back women's labor force participation? What types of policies could boost labor force participation for women? Can you point to any economic evidence showing that these policies would be effective?**

Women's labor force participation was driving the overall upward trend in labor force participation through 2000, so the plateau and then decline in women's participation in the ensuing years is an important factor for explaining the downward national trend over the last decade and half. In 1990, the United States had the sixth-highest female labor force participation rate amongst 22 high-income OECD countries. By 2010, its rank had fallen to 17th.[19] Understanding why women's labor force participation in the United States has stalled is key to reversing the downward trend in the national rate.

There are two leading suspects for why women's labor force participation has stalled in the United States. First, demand for labor remains slack, and the weak labor market is harming employment prospects for both men and women. Second, the United States' failure to provide family-friendly policies to support working families has held back women's labor force participation.

First and foremost, employer demand for labor remains slack. Myriad recent economic studies provide evidence to support the argument that depressed labor force participation likely has a great deal to do with the fact that the American economy remains well below full employment – a factor that influences women's labor force participation as well as men's. For example, a recent paper by economists David Blanchflower and Andrew Levin finds considerable evidence of remaining labor market slack across multiple measures, including labor force participation.[20] A second paper by economist Jesse Rothstein points to slow wage growth and persistent employment shortfalls across industries and amongst both high- and low-skill workers as strong indications of continued labor market slack.[21] Policy solutions for addressing persistent labor market slack include macroeconomic tools (such as monetary policy) and fiscal tools (such as a major public investment in infrastructure). Taking measures to boost employer demand for labor is therefore a key element to addressing women's labor force participation rates.

Second, women's labor force participation rates are artificially depressed due to the paucity of family-friendly policies in the United States. As other developed countries have enacted and expanded family-friendly policies including paid family leave, subsidized child care, universal pre-kindergarten, and flexible workplaces, we remain an outlier. For instance, the United States is the lone developed nation with no paid parental leave.[22] Research by economists Francine Blau and

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[19] Blau, Francine D. and Lawrence M. Kahn. 2013. "Female Labor Supply: Why Is the US Falling Behind?" Bonn, Germany: Institute for the Study of Labor.
http://ftp.iza.org/dp7140.pdf

[20] Blanchflower, David G. and Andrew T. Levin. 2015. "Labor Market Slack and Monetary Policy." Washington, DC: Center on Budget and Policy Priorities.
http://www.pathtofullemployment.org/wp-content/uploads/2015/03/3_30_15fe_blanchflower.pdf

[21] Rothstein, Jesse. 2015. "The Great Recession and its aftermath: What role do structural changes play?" Washington, DC: Washington Center for Equitable Growth.
http://equitablegrowth.org/research/great-recession-aftermath-role-structural-changes-play/

[22] International Labour Office. 2014."Maternity and Paternity at Work: Law and Practice Around the World." Geneva: International Labour Organization.

Lawrence Kahn suggests that the absence of family-friendly policies in the United States is responsible for nearly a third of the U.S. decline in women's labor force participation relative to other OECD economies.[23] Paid leave, universal pre-kindergarten, and high-quality affordable child care, and flexible work arrangements all have the potential to remove work disincentives for those responsible for providing essential care to their families. It is worth nothing that caregivers include not only the parents of young children, but also adults responsible for providing elder care for their own aging parents. As the Baby Boom cohort ages, the share of Americans with care responsibilities will continue to grow as well, and much of this caregiving responsibility has traditionally been taken on by women.[24]

The evidence on the power of family-friendly policies to unleash the power of women in the workforce is clear. In addition to the aforementioned Blau and Kahn study citing the power of family-friendly policy to boost women's labor force participation, a host of studies addresses the labor supply effects of specific policies. For instance, economists at the International Monetary Fund estimate that a 50 percent reduction in the cost of childcare increases the labor supply of young mothers by between 6.5 and 10 percent.[25] Other economists have noted the important role of paid parental leave and the availability of flexible scheduling in facilitating mother's labor supply.[26]

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http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_242615.pdf

[23] Blau and Kahn. Ibid.

[24] Bureau of Labor Statistics. 2013. "Unpaid Eldercare in the United States, 2011-2012: Data from the American Time Use Survey." http://www.bls.gov/news.release/pdf/elcare.pdf

[25] Elborgh-Woytek, Katrin. 2013. "Women, Work, and the Economy: Macroeconomic Gains from Gender Equity." IMF Staff Discussion Note. International Monetary Fund. https://www.imf.org/external/pubs/ft/sdn/2013/sdn1310.pdf.

[26] Ruhm, Christopher. 1998. "The Economic Consequences of Parental Leave Mandates: Lessons from Europe." *Quarterly Journal of Economics* 113(1):285-318; Waldfogel, Jane. 1998. "Understanding the Family Gap for Women with Children." *Journal of Economic Perspectives* 12: 137-156; Baum, C. and Ruhm, C. 2014. "The Effects of Paid Family Leave in California on Labor Market Outcomes." Cambridge, MA: National Bureau of Economic Research; Byker, T. 2014. "The Role of Paid Parental Leave in Reducing Women's Career Interruptions: Evidence from Paid Leave Laws in California and New Jersey." Ann Arbor, MI: Department of Economics, University of Michigan; Edwards, Rebecca. 2014. "Women's Labor Supply: Motherhood and Work Schedule Flexibility." https://economics.uchicago.edu/workshops/Edwards%20Rebecca%20Womens%20Labor%20Supply.pdf; Goldin, Claudia and Lawrence Katz. 2011. "The Cost of Workplace Flexibility for High Powered Professionals." *ANNALS of the Academy of Political and Social Science* 638: 45. http://ann.sagepub.com/content/638/1/45;

# Joint Economic Committee Hearing on

# "What Lower Labor Force Participation Rates Tell Us about Work Opportunities and Incentives"

## Questions for the Record for Dr. Mathur
## Senator Amy Klobuchar

**July 23, 2015**

**Women in the Labor Force**

1. The rise of women in the labor force since World War II has had a dramatic impact on the labor force participation rate with the women's labor force participation rate nearly doubling from 1950 to today. Yet despite these gains in labor force participation, women still face challenges.

   - *Dr. Mathur, in your testimony, you mention the benefit of providing parental leave for women. What family-friendly policies would you recommend that Congress examine? What family-friendly policies have you looked at in other countries that would be helpful to study?*

*Response*

*In general, I do not think we should have gender specific policies, because mandating such policies can in fact have adverse consequences for workers since it makes employers more reluctant to hire them. But maternity leave is one issue that we need to consider seriously since it does impact one gender significantly more than the other. I think the most helpful policy for women is paid maternity or parental leave. As I mentioned, we already provide a lot of tax credits to help families with children. Allowing families to access the EITC, the Child tax credit and the Dependent Care Credit in advance at the time of birth of the child could help families cover expenses during unpaid family leave. In addition, in order to help directly with child care expenses, making the child and dependent care credit refundable and expanding the size of the credit would significantly help low-income women, especially low-income women facing the birth of a child. Expansion of this credit would also help families afford the expenses of child care and enable them to participate more freely in the workforce.*

*Aside from this reform, expanding the EITC would encourage labor force participation, particularly for low income single mothers.*

*I have written in more detail about expanding opportunity for women here:*
*http://www.aei.org/wp-content/uploads/2014/07/-how-to-improve-economic-opportunity-for-women_084923980191.pdf*

**Apprenticeships**

2. Dr. Mathur, you noted in your testimony that one thing we can do to help develop a skilled labor force and increase participation is to expand the current system of paid apprenticeships for college students. I am interested in expanding apprenticeship opportunities for those who do not chose to go to a traditional four-year college or university.

   - *Can you discuss how apprenticeships and community college programs can help keep our labor force strong?*

- *Can you tell me about your idea that would provide apprenticeships to college students? Would these apprenticeships be connected to specific fields of study*

*Response*

*In my view, apprenticeships are a win-win for both employers and employees. Given the high youth unemployment rates, and the demand for skills by employers, it seems to me a natural idea to expand paid apprenticeships in the U.S.. Paid apprenticeships could be available to students going to high school or college, and could be an alternative to college. Currently, the apprenticeship programs are financed through employer tax credits (such as in Apprenticeship Carolina) where employers receive a $1000 tax credit per apprentice for providing such a program. Employees receive on the job training and also classroom instruction. Evidence suggests that this helps boost productivity and morale for workers, and pays off for employers too since the employees have exactly the skills needed to perform well on the job. In addition, since these are paid programs, students don't graduate with high levels of student debt. Evidence suggests that these programs yield high rates of return, and do better than getting a 2 year degree from a community college in a certain occupation. (Must read Robert Lerman's work on this: https://www.american.edu/cas/economics/research/upload/2012-18.pdf)*

# Joint Economic Committee Hearing on

# "What Lower Labor Force Participation Rates Tell Us about Work Opportunities and Incentives"

## Questions for the Record for Dr. Jacobs
## Senator Amy Klobuchar

**July 23, 2015**

**Women in the Labor Force**

1. The rise of women in the labor force since World War II has had a dramatic impact on the labor force participation rate with the women's labor force participation rate nearly doubling from 1950 to today. Yet despite these gains in labor force participation, women still face challenges.

    - *Dr. Jacobs, in your testimony, you discuss the need for family-friendly policies to boost labor force participation rates. What policies would you recommend that Congress examine to help bolster the labor force participation rate for women?*

**Education and Workforce Training**

2. Workforce training is crucial to make sure that our workers are trained today for the jobs of tomorrow. Many fast-growing occupations and industries with job openings are in information technology, high-tech services, healthcare, and advanced manufacturing. And many of these jobs require post-secondary education.

    - *Dr. Jacobs, you noted in your testimony that part of the reason for the recent decline in the labor force participation rate reflects, "a continued shortage of demand for all workers"; however, in Minnesota we are seeing a mismatch between the jobs that are available and the skills in the workforce. In addition to the family-friendly policies discussed in your testimony, would you please discuss the impact that workforce training programs and apprenticeships can have with helping discouraged workers back into the labor force?*

From Senator Amy Klobuchar

**The rise of women in the labor force since World War II has had a dramatic impact on the labor force participation rate with the women's labor force participation rate nearly doubling from 1950 to today. Yet despite these gains in labor force participation, women still face challenges. Dr. Jacobs, in your testimony, you discuss the need for family-friendly policies to boost labor force participation rates. What policies would you recommend that Congress examine to help bolster the labor force participation rate for women?**

Women's labor force participation was driving the overall upward trend in labor force participation through 2000, so the plateau and then decline in women's participation in the ensuing years is an important factor for explaining the downward national trend over the last decade and half. In 1990, the United States had the sixth-highest female labor force participation rate amongst 22 high-income OECD countries. By 2010, its rank had fallen to 17th.[1] Understanding why women's labor force participation in the United States has stalled is key to reversing the downward trend in the national rate.

There are two leading suspects for why women's labor force participation has stalled in the United States. First, demand for labor remains slack, and the weak labor market is harming employment prospects for both men and women. Second, the United States' failure to provide family-friendly policies to support working families has held back women's labor force participation.

First and foremost, employer demand for labor remains slack. Myriad recent economic studies provide evidence to support the argument that depressed labor force participation likely has a great deal to do with the fact that the American economy remains well below full employment – a factor that influences women's labor force participation as well as men's. For example, a recent paper by economists David Blanchflower and Andrew Levin finds considerable evidence of remaining labor market slack across multiple measures, including labor force participation.[2] A second paper by economist Jesse Rothstein points to slow wage growth and persistent employment shortfalls across industries and amongst both high- and low-skill workers as strong indications of continued labor market slack.[3] Policy solutions for addressing persistent labor market slack include macroeconomic tools (such as monetary policy) and fiscal tools (such as a major public investment in infrastructure). Taking measures to boost employer demand for labor is therefore a key element to addressing women's labor force participation rates.

Second, women's labor force participation rates are artificially depressed due to the paucity of family-friendly policies in the United States. As other developed countries have enacted and expanded family-friendly policies including paid family leave, subsidized child care, universal pre-kindergarten, and flexible workplaces, we remain an outlier. For instance, the United States is the lone developed nation with no paid parental leave.[4] Research by economists Francine Blau and

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[1] Blau, Francine D. and Lawrence M. Kahn. 2013. "Female Labor Supply: Why Is the US Falling Behind?" Bonn, Germany: Institute for the Study of Labor.
http://ftp.iza.org/dp7140.pdf

[2] Blanchflower, David G. and Andrew T. Levin. 2015. "Labor Market Slack and Monetary Policy." Washington, DC: Center on Budget and Policy Priorities.
http://www.pathtofullemployment.org/wp-content/uploads/2015/03/3_30_15fe_blanchflower.pdf

[3] Rothstein, Jesse. 2015. "The Great Recession and its aftermath: What role do structural changes play?" Washington, DC: Washington Center for Equitable Growth.
http://equitablegrowth.org/research/great-recession-aftermath-role-structural-changes-play/

[4] International Labour Office. 2014."Maternity and Paternity at Work: Law and Practice Around the World." Geneva: International Labour Organization.

Lawrence Kahn suggests that the absence of family-friendly policies in the United States is responsible for nearly a third of the U.S. decline in women's labor force participation relative to other OECD economies.[5] Paid leave, universal pre-kindergarten, and high-quality affordable child care, and flexible work arrangements all have the potential to remove work disincentives for those responsible for providing essential care to their families. It is worth nothing that caregivers include not only the parents of young children, but also adults responsible for providing elder care for their own aging parents. As the Baby Boom cohort ages, the share of Americans with care responsibilities will continue to grow as well, and much of this caregiving responsibility has traditionally been taken on by women.[6]

The evidence on the power of family-friendly policies to unleash the power of women in the workforce is clear. In addition to the aforementioned Blau and Kahn study citing the power of family-friendly policy to boost women's labor force participation, a host of studies addresses the labor supply effects of specific policies. For instance, economists at the International Monetary Fund estimate that a 50 percent reduction in the cost of childcare increases the labor supply of young mothers by between 6.5 and 10 percent.[7] Other economists have noted the important role of paid parental leave and the availability of flexible scheduling in facilitating mother's labor supply.[8]

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http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_242615.pdf

[5] Blau and Kahn. Ibid.

[6] Bureau of Labor Statistics. 2013. "Unpaid Eldercare in the United States, 2011-2012: Data from the American Time Use Survey."
http://www.bls.gov/news.release/pdf/elcare.pdf

[7] Elborgh-Woytek, Katrin. 2013. "Women, Work, and the Economy: Macroeconomic Gains from Gender Equity." IMF Staff Discussion Note. International Monetary Fund.
https://www.imf.org/external/pubs/ft/sdn/2013/sdn1310.pdf.

[8] Ruhm, Christopher. 1998. "The Economic Consequences of Parental Leave Mandates: Lessons from Europe." *Quarterly Journal of Economics* 113(1):285-318; Waldfogel, Jane. 1998. "Understanding the Family Gap for Women with Children." *Journal of Economic Perspectives* 12: 137-156; Baum, C. and Ruhm, C. 2014. "The Effects of Paid Family Leave in California on Labor Market Outcomes." Cambridge, MA: National Bureau of Economic Research; Byker, T. 2014. "The Role of Paid Parental Leave in Reducing Women's Career Interruptions: Evidence from Paid Leave Laws in California and New Jersey." Ann Arbor, MI: Department of Economics, University of Michigan; Edwards, Rebecca. 2014. "Women's Labor Supply: Motherhood and Work Schedule Flexibility."
https://economics.uchicago.edu/workshops/Edwards%20Rebecca%20Womens%20Labor%20Supply.pdf;
Goldin, Claudia and Lawrence Katz. 2011. "The Cost of Workplace Flexibility for High Powered Professionals." *ANNALS of the Academy of Political and Social Science* 638: 45. http://ann.sagepub.com/content/638/1/45;

From Senator Amy Klobuchar

**Workforce training is crucial to make sure that our workers are trained today for the jobs of tomorrow. Many fast-growing occupations and industries with job openings are in information technology, high-tech services, healthcare, and advanced manufacturing. And many of these jobs require post-secondary education. Dr. Jacobs, you noted in your testimony that part of the reason for the recent decline in the labor force participation rate reflects, "a continued shortage of demand for all workers"; however, in Minnesota we are seeing a mismatch between the jobs that are available and the skills in the workforce. In addition to the family-friendly policies discussed in your testimony, would you please discuss the impact that workforce training programs and apprenticeships can have with helping discouraged workers back into the labor force?**

Policy efforts focused on labor supply, including as workforce training programs and an expanded commitment to apprenticeships, have an important role to play in fostering a globally-competitive American economy. In the long term, education is a fundamental building block for enhancing productivity, and in turn growing the economy. In the short term, however, workforce training programs are unlikely to have a significant impact on moving discouraged workers back into the labor force.

Well-funded federal workforce development programs can serve as much-needed coordinating intermediaries for the complex set of institutional actors involved in education and training – the K-12 educational system, post-secondary educational institutions (including community colleges and technical institutes), multiple streams of government funding across multiple jurisdictional levels (local, regional, state, and federal), and employers.[1] High-functioning training programs can generate new pools of high-skilled workers, and then facilitate the process of matching those workers to good jobs with prospects for upward mobility, so long as those jobs exist.[2] International experience with apprenticeship programs, particularly for young workers, provides evidence of the role that paid on-the-job training can play in boosting long-term earnings and employment outcomes.[3] Several recent studies using data from the United States suggest that completion of a publicly-funded apprenticeship program may result in substantially higher long-term earnings than a community college degree.[4] Taken together, the evidence suggests that workforce development and apprenticeship programs are an important complement to traditional K-12 and college education, and a policy space where the United States has substantial room for improvement.

Workforce training is unlikely to move the needle significantly on the labor force participation rate, however. The best data on the labor market suggests that the persistent national problem is still one of weak employer demand for labor, rather than a fundamental mismatch between jobless workers' skills and employers' needs. In short, boosting the skills of workers won't matter if the jobs

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[1] Jacobs, Elisabeth. 2013. "Creating a Virtuous Circle: Workforce Development Policy as a Tool for Improving the Prospects of America's Unemployed Workers." Washington, DC: Brookings. http://www.brookings.edu/research/papers/2013/02/13-workforce-development-jacobs.

[2] Board of Governors of the Federal Reserve System. 2012. "A Perspective from Main Street: Long-Term Unemployment and Workforce Development." http://www.federalreserve.gov/communitydev/pdfs/Workforce_errata_final2.pdf.

[3] Smith, Erica, et. al. 2013. "Towards a Model Apprenticeship Framework: A Comparative Analysis of National Apprenticeship Systems." Geneva, Switzerland: International Labour Organization. http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---sro-new_delhi/documents/publication/wcms_234728.pdf.

[4] Lerman, Robert. 2012. "Can the United States Expand Apprenticeship? Lessons from Experience." IZA Policy Paper No. 46. Bonn, Germany: Institute for the Study of Labor (IZA). http://ftp.iza.org/pp46.pdf.

aren't there for them in the end. Today, the majority of the problems with the labor market stem from weak employer demand, not from problems on the supply side.

In the presence of a shortage of skilled workers in certain geographic areas or industries, economic theory predicts employers ought to increase their recruitment efforts via higher wages, more generous benefits, and support for training programs. The data provides no evidence that any of this has occurred.[5] Instead, the economic evidence is consistent with a "filtering down" process, whereby the relatively high number of jobless workers available for each vacancy allow employers to be highly selective about who they employ for any given job. For instance, a recent paper from Northeastern University economist Alicia Sasser Modestino and co-authors examines employer requirements during the Great Recession and the ensuing recovery. They find a boost in the supply of unemployed workers leads to an increase in the skills requirements for the jobs that employers post. With a larger pool of talent to pick from, employers get to choose from the cream of the crop. In other words, workers are not lacking in the necessary skills, but employers are raising the bar as more people look for work.[6]

This "de-skilling" is not new to the post-recession era. Economist Paul Beaudry and his colleagues find that employer demand for the cognitive tasks often associated with high educational skill began decreasing in 2000, after several decades of steady increases in skills demands. The authors find that, in response to this reversal in employer demand, high-skill workers have moved down the occupational ladder and have begun to perform jobs traditionally performed by lower-skill workers. The deskilling process ultimately results in high-skilled workers pushing lower-skilled workers even further down the occupational ladder - and, in many cases, out of the labor market entirely.[7] The result is a cruel game of musical chairs for less-skilled workers.[8]

These data suggest that "upskilling" efforts, including workforce training programs and apprenticeships that focus on the labor supply side of the market, are unlikely to solve the labor force participation puzzle on their own. Demand-side efforts, including monetary and fiscal policy, are critical partners for any supply-side solution. Programs focused on bolstering workers' skills are best thought of as an important part of growing the economy in the long-term.

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[5] Rothstein, Jesse. 2015. "The Great Recession and its aftermath: What role do structural changes play?" Washington, DC: Washington Center for Equitable Growth. http://equitablegrowth.org/research/great-recession-aftermath-role-structural-changes-play/; Shierholz, Heidi. 2014. "Is There Really a Shortage of Skilled Workers?" Washington, DC: Economic Policy Institute. http://www.epi.org/publication/shortage-skilled-workers; Cappelli, Peter. 2014. "Skill Gaps, Skill Shortages, and Skill Mismatches: Evidence for the US." NBER Working Paper 20382. Cambridge, MA: National Bureau of Economic Research. https://www.nber.org/papers/w20382

[6] Modestino, Alicia Sasser, Daniel Shoag, and Joshua Balance. 2014. "Upskilling: Do Employers Demand Great Skill When Workers Are Plentiful?" http://scholar.harvard.edu/files/shoag/files/modestino_shoag_and_ballance_012114.pdf.

[7] Beaudry, Paul, David A. Green, and Benjamin A. Sand. 2013. "The Great Reversal in the Employer Demand for Skill and Cognitive Tasks." NBER Working Paper 18901. Cambridge, MA: National Bureau of Economic Research. https://www.nber.org/papers/w18901.

[8] Jacobs, Elisabeth. 2014. "A Lost Generation of Workers: The Cost of Youth Unemployment." http://www.npr.org/2014/07/02/327058018/a-lost-generation-of-workers-the-cost-of-youth-unemployment.